OCEAN OF LIES, SPECK OF SAND:

The Truth About Costs in the Offshore Oil and Gas Marine Support Sector
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An intelligent debate between two sides requires that both sides do one thing: use the same facts.

Everyone is entitled to an opinion.

But, one side is not entitled to a separate set of facts.

Which brings us to the companies doing business in the oil and gas sector and the industry’s mouthpiece, the Australian Mines and Metals Association.

The Big Lie promoted by the industry and the press is that wages of hard-working members of the Maritime Union of Australia are the principle reason for the rise in costs in the oil and gas sector, in particular, the staggering cost blow-out of the Gorgon project. That Big Lie was recently further inflated by an AMMA-commissioned report produced by Deloitte Access Economics (DAE).

The MUA commissioned BIS Shrapnel to do a proper analysis of the issue, with a specific request to review the DAE report. BIS Shrapnel’s report is attached to this briefing.

Here, we synopsize the report’s main findings.

The bottom line is this: AMMA, DAE and many other leaders responsible for LNG projects are doing a great disservice to Australia and the LNG industry by conducting a disinformation campaign about the wages of MUA members. A debate about rising costs is important for the industry—but it can only be useful if the industry focused on the true cost issues: gross mismanagement, poor decision-making and other non-wage factors, which the MUA has repeatedly pointed out as fundamental problems.

THE SPECK OF SAND

If the costs of the projects, particularly the $52 billion Gorgon project, were a sweeping beach of pristine sand, the labour costs would amount to a speck of sand.

To illustrate this, the MUA created a simple graphic representing the costs on the Gorgon project, which is the biggest resource investment project in Australia’s history and one of the largest in the world.

In calculating the costs in the diagram, the MUA used a very complicated process: it’s called maths.

The MUA even threw the industry a lifeline: for the graphic’s data, the MUA used the industry’s own deeply flawed information about wages to calculate labour costs in the offshore oil and gas marine support sector. That is, the MUA assumed that every worker was paid $230,000, a figure the industry repeatedly uses.

As can be seen in the graphic (please see page 3/4), wage costs overall—even using the industry’s erroneous claims—and, in particular, the 6 percent annual wage increase sought for three years in the current round of bargaining throughout the industry, is a tiny factor in costs.

It is a speck, barely visible to the naked eye.

The graphic illustrates more than words can the broad spectrum of the findings in the BIS Shrapnel report, which is attached to this overview.

MISREPRESENTATION, MISINTERPRETATION AND OMISSIONS

BIS Shrapnel’s critique of Deloitte Access Economics (DAE) report, which was entitled, “Analysis of the offshore oil and gas marine support sector” has found that the DAE report misrepresented, misinterpreted, or completely omitted relevant information to reach its conclusions.

COUNTING PROPERLY

The DAE report grossly mis-represented the wage costs of integrated ratings by comparing apples and oranges. A first-year university economics student would know that one can only compare industries using comparable yardsticks. Apparently, that elementary fact escaped DAE.

Using a more sound methodological approach, BIS Shrapnel came to a very different, fact-based conclusion:

“BIS Shrapnel’s analysis found that when placed against more relevant indexes, integrated rating wages growth has lagged behind construction and mining wage index growth over the period 2005 to 2013.”

ALICE-IN-WONDERLAND FANTASY:

DAE simply repeated AMMA’s claim about the existence of $230,000 marine cooks. BIS Shrapnel found that claim “exaggerated by approximately 40%.”
$52 Billion: Cost of Gorgon Project.

$575 million= wage cost for 2,500 workers in oil and gas marine support sector, utilising industry-inflated wage figures.

$287 million=MUA Ratings occupations wage cost in oil and gas marine support sector, utilising industry-inflated wage figures.

$17 million: one-year cost of MUA 6 percent wage increase demand at current $52 billion project estimate.

Based on MUA calculations.
I’M MELTING, I’M MELTING… IS THE INDUSTRY IN DECLINE?

DAE gives a false impression that increases in wages can’t be sustained because of alleged faltering profits. DAE and AMMA want the public to believe that the industry is melting down under the heavy weight of wage costs, and can only be saved if companies embark on a brutal cutback of middle-class wages for MUA members.

THE PROBLEM IS THAT IT’S NOT TRUE.

BIS Shrapnel found that:

Offshore oil and gas marine support service operators continue to experience double-digit revenue growth...

Revenue growth of 200% compared to 32% wage growth over the same period strongly refutes the claim that wage growth is outpacing revenue growth as described by DAE.

It is a very profitable industry, with revenues quadruple the size of wage increases—a standard any other industry would welcome. For example, Chevron, the operator of the $52 billion Gorgon project, reported $26.8 billion in profits in 2012, ranking it second in profits in the world behind Exxon Mobil.

THE MYSTERIOUS COMPETITIVE DISADVANTAGE

DAE claims that Australian wages in LNG projects build in a competitive disadvantage with African and Canadian projects.

Ding! Incorrect. Again.

As BIS Shrapnel persuasively demonstrates, using actual data:

“The total maritime wage bill is estimated to represent less than one per cent of the total project cost, even when taking into account the entire workforce, which includes integrated ratings, engineers, deckhands and officers.”

THE DOLLAR UP, DOLLAR DOWN

Exchange rates explain a huge part of the competitive gap. BIS Shrapnel points out:

“That implies both DAE and BIS Shrapnel are forecasting that competitive gap on the landed cost of Australian-sourced LNG in Japan will likely be eliminated within the next five years through exchange rate movements alone.”

FOLLOW THE REAL MONEY:

So, where are the real huge cost increases to be found?

Management. Or more precisely, gross mismanagement. As BIS Shrapnel points out:

“Non-wage related labour productivity enhancements represent 88% of the recommended labour productivity improvement opportunities. Meanwhile, improvements in wage growth could account for approximately 4-5% of potential labour productivity improvement opportunities.”

The bottom line: management would reduce costs far faster and deeper if it focused on its own shortcomings and poor organization, rather than distract the industry with a miniscule cost issue such as wages.

Unfortunately, DAE mortgaged its hard-earned global reputation by parroting AMMA’s agenda—an agenda aimed at hiding the truth from the public that gross mismanagement by AMMA’s members is the greatest threat to a healthy, thriving LNG sector.

Thus, if the industry and the media want to have a serious debate leading to a mutual path to building a sustainable future in the oil and gas sector, the Deloitte Access Economics report should be rubbered. The MUA invites AMMA to have a serious debate about costs, and how those costs can be effectively addressed.