



Perspectives on Local Content

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Acorn International, LLC
BOS | IAH | SFO | Worldwide

www.localcontent-globalassurance.com



 **Acorn**
INTERNATIONAL
LOCAL CONTENT & GLOBAL ASSURANCE

Who We Are

Acorn International, LLC delivers social and environmental risk management consulting services to international industries and investors.

We do so through a distinctive process of partnering with, directing and building capacity of local expert teams in more than 50 countries worldwide to promote local content and world-class quality assurance.

- **Environmental / Social Baseline and Impact Assessment**
- **E/S Risk Assessment and Management**
- **Social Performance (SP) and Human Rights**
- **Local Content Planning**
- **Capacity Building and Training**

Brief Agenda

- What is Local Content?
- Drivers/Business Case
- Overall Trends/Challenges
- Observations on Local Content Focus Areas
- Closing Case Study and Remarks

What is Local Content?

- Traditional Oil and Gas Industry Definition/Scope = Local Procurement BUT...
- Scope often extended to include direct employment
- Trend is to define or approach Local Content more broadly to encompass:

- Local Procurement
- Local Employment
- Community/Social Investment

ExxonMobil packages these within “National Content”



- Capacity Building: Supporting the enabling and governance environment

Drivers of Local Content / Business Case

Social License to Operate

- Jobs and indirect employment primary interest of local stakeholders
- Other important benefits from social investment programming
- Overall interest in capacity building and skills transfer
- Growing pressure in both developed & developing countries to demonstrate

Regulatory

- Some oil/gas (especially developing) countries require X% of procurement from local goods and services; many limit regulation to best efforts
- Other regulatory requirements in specific countries mandate X% on social investment spending

Economic

- Potential long-term savings for oil/gas operators on logistics management, local wage base, etc. (offset by up-front costs)
- National, regional, and local multiplier impacts

Local Content: Overall Global Trends/Challenges

- Blending with **social license** and overall capacity building considerations
- Oil/gas (particularly offshore) is often highly **specialized** and capital intensive
- Commercial pressures on project delivery not always consistent with social expectations
- Regulatory considerations
 - Scale/timing of future industry developments important factor
 - Objectives and degree of regulation reflect wide-variance across countries (e.g. Brazil, Nigeria, Kazakhstan, Mexico, Norway, US, Canada)
 - Balance of pros/cons and public/private sector engagement are key
- “Self”-regulation - Major oil and gas companies have LC processes and management systems in place but need to be tailored for local conditions
- Ironically, much innovation in LC largely emerges from company experiences in least developed countries

Selected Local Content Regulatory Comparisons

Country	Observations
Brazil & Ghana (recent)	<ul style="list-style-type: none"> • LC regulatory application to offshore very ambitious and many view as impractical
Trinidad & Tobago	<ul style="list-style-type: none"> • In-country fabrication via joint ventures / technology transfer (BP)
Indonesia	<ul style="list-style-type: none"> • Procurement of domestic inputs (35%) • Mixed results, complex bureaucracy
Nigeria, Angola	<ul style="list-style-type: none"> • Extensive focus on domiciliation/jobs from of oil / gas activities • Mixed results, complex regimes
Norway	<ul style="list-style-type: none"> • Bidding preferences for Norwegian suppliers and focus on R&D • EU entrance & transition towards self-regulation
U.S. , Australia, Canada	<ul style="list-style-type: none"> • Overall, relatively limited LC regulation • Targeting and preferences for indigenous populations

Local Content: Employment

Challenges

- O&G (particularly offshore) typically not a major local employer
- Life cycle considerations (planning in advance of each phase is essential)
 - Exploration/Seismic/Appraisal – very limited
 - FEED/Engineering – limited
 - Development/construction – largest demand period but temporary and still requires very specific skills (e.g. not all welding is the same)
 - Operations – most sustainable LC stage but numbers are not large

Good Practice

- Most large O&G companies do establish, manage, and report on
 - Workforce nationalization targets
 - Local workforce development
 - Number/% of locals in management positions, etc.
- In developing countries, companies establish their own training centers or support government efforts to do so
- In developed economies, increasing focus on workforce diversity

Local Content: Procurement

Challenges

- Defining what is local:
 - Registration?
 - Ownership %?
 - Value-Add?
- Operator coordination with international service providers on Local Content
- Technology transfer between IOCs and NOCs as well among other local suppliers

Good Practice

- Multiple examples of LC best practice in specific segments or clusters (e.g. waste management, shipping, metal works, safety, service areas – security, catering, etc.)
- Innovative approaches - e-procurement in Chad; enterprise / supplier centers in Azerbaijan, Chile, PNG, and focus on First Nations in Canada
- Small business support and diversity often a key focus in developed countries
- Companies typically manage and report on % and total amount of local spend

Local Content: Social Investment

Challenges

- Historically “paternalistic” in design, increasingly (but not consistently) participatory
- Becoming more strategically defined and focused on delivering tailored local benefits (with KPIs)
- In many locations, defining “affected communities” and minimizing friction over those receiving and not receiving benefits

Good Practice

- SME support, training, and education initiatives often channeled through social investment mechanisms
- Companies typically report on total spend but also programmatic KPIs

Other Attributes

- Some jurisdictions require % spend on social investment (e.g. Mexico, the Philippines, Chile, others)

Host Govt. Capacity Building

- Identify capacity needs for environmental governance of the oil/gas sector in a relatively new oil/gas regime & develop a plan to address these needs
- Work sponsored/facilitated by mid-size oil/gas company to assist government with identification of overall governance needs

High Level Capacity Building Needs Identified	Ministries/Departments				
Clarify environmental management mandate, roles and responsibilities among agencies, and encourage more efficient inter-agency coordination	■	■	■	■	■
Develop human resources to meet clarified mandate and responsibilities	■	■	■	■	■
Clarify and formalize enforcement, sanction and penalty framework	□	■	□	□	□
Consolidate, formalize and strengthen regulatory requirements	□	■	■	□	□
Improve information management	■	■	■	■	■
Strengthen public consultation framework	□	■	□	□	□
Enhance monitoring mechanisms	□	■	■	□	□
Improve emergency preparation response management	□	■	■	□	■
Develop formalized waste classification system and management standards/guidelines	□	■	□	□	□
Establish systems and mechanisms to sustain and continually improve benefits of the recommended capacity building program	■	■	■	□	□

■	High-level need identified for Agency
□	No high-level needs identified

Local Content: Host Government Capacity Building

Findings* (gaps relevant across advanced & new oil/gas regimes)

- Policy and legal frameworks in place, but administrative structure often impedes implementation
- Resources (human and financial) often lacking for effective governance
- Impact assessment processes (EIAs) in place but often don't adequately cover social dimensions and not setup for long-term management and monitoring
- **Public consultation and disclosure** on identified environmental and social impacts under-emphasized
- Lack of central information systems for dissemination, awareness
- Liability and decommissioning receives relatively little government attention

**Acorn International experience and findings from World Bank benchmarking study of 28 oil/gas producing countries*

Concluding Case Example: Papua New Guinea

Brief Context

- Enormous gas/LNG project (\$25 billion in capex) - was projected to double the country's GDP by itself
- High political and social risk environment – violence, poverty, and established small service providers with leverage that, in theory but not in practice, represented community interests
- Project required onshore gas development, pipeline, LNG facility, and export
- Minimal local content regulation – but complex benefit sharing agreement and extremely high social license stakes

Concluding Case Example: Papua New Guinea (continued)

Some of the Actions Taken

- Early local content planning and identification of key players (3 of 4 focus areas)
- Explicit communication of company HSE, commercial, and related standards
- “Carrot and stick” approach to existing service providers that included:
 - Company funded audits of service providers to establish baseline eligibility
 - Establishment of separate Enterprise Center to provide training and support
 - Facilitation of service company collaboration & JVs with experienced companies
 - Integration of social investment with livelihood support, gender-related development objectives

Relevant Lessons Learned

- Company integration across its full “tool-kit” to achieve social license
- Accountability required on both sides – minimize entitlements and dependence
- Facilitation of collaboration very challenging but helped with technology transfer

Closing Remarks

- Local Content is an increasingly visible issue for the energy (and mining) sectors
- Scope often extends to overall benefits delivery & institutional capacity building
- Scale and lifecycle are important considerations in determining economies of scale for LC investments
- Importance of collaboration between public and private sectors on achievable objectives
- Innovation and learning opportunity from developing economies

Our Work

Acorn International has MSAs and repeat business with some of the world's largest resource companies and investors.

- Master services agreements with:
 - ExxonMobil
 - Chevron
 - BHP Billiton
 - Shell
 - Anadarko
 - Kosmos Energy
 - Noble Energy
 - Oxy
 - Schlumberger
 - Southwestern Energy
- Repeat business with others including:
 - **Finance** – Inter-American Development Bank, IFC, CIFI
 - **Extractives** - BP, Cliffs Resources, ConocoPhillips, Hess, Tullow Oil, Petronas, Kuwait Petroleum, CEMEX
 - **Government** – Ghana EPA, Liberia EPA, Mexico CNH, US Department of Justice

BACKUP

Case Example: Indonesia

Brief Context

- Offshore Project
- Highly regulated and complex LC context created substantial compliance challenges and other process delays (at the time, 35% LC minimum)
- Well educated workforce though “brain-drain” to higher paying regions
- Procurement targets created very significant compliance challenges

Some of the Actions taken

- Early local content planning
- Engagement and contractor management plans with international service providers to determine and drive potential for LC
- Cost and budget estimates higher due to LC – significant enough to be a value lever in overall fiscal negotiations

Local Content Regulatory Provisions

Arguments in Favor

- Short term resources directed at domestic market and employment
- Long term – diversification of / to other industries
- Development of technological advances

Arguments Against

- Inhibits international competitiveness of targeted industries
- Reduction in innovation
- Cost increases
- Discourages foreign investment