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National Energy Policy Consultations: Local Content & Participation

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NATIONAL ENERGY POLICY CONSULTATIONS

LOCAL CONTENT & PARTICIPATION

Re-fueling T&T's economic engine:
A new policy for energy, 2011-2015

LOCAL CONTENT & PARTICIPATION

1. PREAMBLE

A key objective of the Government's sustainable development programme is "the increase in local content participation and ownership in energy projects, throughout the value chain, including the services sector."

This is one aspect of the National Energy Policy which needs to be continuously reviewed to facilitate the growth and contribution of the local energy services sector to the on-going development of Trinidad and Tobago. The Government's intervention in this area began in the year 2000, when the Government agreed to the establishment of *Policy Guidelines for the Utilisation of Local Goods and Services for Government and Government Related Project*. The prime objectives of these guidelines were to develop local expertise and to ensure that a significant portion of the capital expenditure for investment in the energy sector projects was channelled into the local economy.

Following this a Permanent Local Content Committee was established and a *Local Content and Participation Policy and Framework* was developed in 2004. The role of the PLCC is to ensure, as far as possible, that all energy projects include opportunities for the development of expertise of nationals while maximizing the level of local content and local participation. However, a clear strategy by Government inclusive of measures and resources committed to support the growth and sustainability of the local energy services and businesses have been absent. In addition, the energy sector has over the last decade made tremendous strides in the development of renewable energy resources and businesses, but to date, the local energy services sector has been unable to take advantage of these opportunities.

2. THE GLOBAL ENERGY SERVICES SECTOR

The international energy services sector is extremely diversified, with markets existing across the globe, but concentrated in either the major hydrocarbon producing centers or the major centers of energy consumption.

The fortunes of the services sector are largely dependent upon the overall growth or decline of the wider energy sector. However, over the long-term there has been a general trend in favour of the energy services sector based on two factors:

- Major multi-national energy companies have sought to outsource more of their activities, including in many instances day-to-day operations.
- Energy markets in key industrial regions have become increasingly liberalized, and de-monopolized opening opportunities for energy service providers.

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Resource nationalism in a number of major markets, and strict local content regimes in countries such as Nigeria and Brazil could alter the scope of the international services sector, opening new opportunities to smaller companies based in these markets or to joint venture/partnership relations. At the same time the most lucrative contracts in the upstream sector are likely to remain with the biggest players, which are able to make the huge investments in capital equipment. The large service companies also have the capacity to innovate and conduct the research and development needed to access the increasingly remote and challenging oil and gas fields (for example in deep water locations), that will be exploited in coming decades.

In the past eighteen months, on the heels of the global economic crisis, there has been a trend of large scale mergers/acquisitions of competing and related companies by the larger, international service companies. While these merger/acquisitions have consolidated the market share of the bigger players in the services sector, it is important to note these transactions include not only service companies but also companies supplying raw material or equipment for the services market. In the renewable energy sector the industrialized countries such as Germany and USA have taken the lead in the development of new technologies with major hydrocarbon based companies like BP and Shell taking the lead.

3. THE ENERGY SERVICES SECTOR IN TRINIDAD AND TOBAGO

There is no central registry of energy service companies in Trinidad and Tobago. Under the CSO classification of Petroleum Industry Service Contractors there were 260 companies surveyed in 2009. Other service providers in the energy sector, such as specialized consultants or advisors tend to be either partners within professional services firms who offer services to both the energy and non-energy sector (e.g. law or accountancy firms) or self-employed/small business owners.

The Petroleum Industry Service Contractor sub-sector comprises a few large to medium-sized firms and a substantial number of small firms, in terms of number of employees and revenues. In 2005 the four largest firms in the sector contributed 40% of the local value added by the sector. However, the nature of the business and the fact that there are large variations in contracts means that there are often shifts in the firms who make up the largest contributions to the sector. In the recent past, the local energy services sector has several important initiatives to enter foreign markets with limited support from Government.

4. LOCAL VALUE ADDED

The core purpose of a local content and participation policy and strategy is to promote the development of local value added and the development of sustainable businesses in the energy sector.

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Some key strategic issues which need to be addressed include the following:-

- Appropriate institutional and regulatory instruments to ensure compliance with Government's local content and sustainable development
- Making the business case for supporting local content and developing local suppliers.
- Supporting the growth of sustainable local businesses through long term planning and sharing of information by the Government in its major energy projects.
- Employing strategic training programs to support local entrepreneurial development and technology transfer in the energy sector.
- Building capacity and institutional support for local firms seeking opportunities abroad.
- Identifying prospective local energy businesses and their overall capabilities and needs.
- Conducting local supplier and civil society assessments to determine suitable company strategies and opportunities for long-term growth.
- Assessing local companies across the range of business performance requirements – technical, management, finance, HSE, and more to identify strengths, gaps, and potential training areas.
- Recommending and facilitating approaches to training, joint ventures, and links to community development and social investment initiatives.
- Clearly defined mandate and policies for state owned energy enterprises to support the local service industry in projects and activities.

5. OBJECTIVES OF POLICY INITIATIVES

In order to achieve the goal of maximum local content and participation, it is important that all stakeholders in the sector are engaged and managed in a manner that:

1. *Identifies* where local value-added opportunity capture exists from the sector by:
 - Selecting, from time to time, specific goods and services for focusing the local content, participation and supply capability development efforts;
2. *Determines* how to enable delivery of maximum local value-added by:
 - managing the programme of activities in the sector as a portfolio, so that the project pace and scheduling enable the maximum opportunity for development of local capabilities and their sustainable utilization;
 - targeting local capability development by increasing the amount, depth and breadth of "in country" activities, so as to enable fuller participation of nationals and enterprises in the value chain;
 - giving preference, firstly, to locally owned, controlled and financed enterprises, then to those that demonstrate a clear culture, commitment and capacity for

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maximizing local value-added, participation and capability development, consistent with the country's aspirations and vision;

- focusing on improving local skills, business know-how, technology, financing, capital market development, and wealth capture and distribution;
- ensures delivery of maximum local value-added by aggressively promoting and rigorously applying this policy wherever State controlled resources are involved;
- facilitating the development of local capability to enable local value-added;
- removing barriers for local participation;
- setting targets of local content and participation that will be assigned to individual projects, operations and/or operators and supporting these targets with appropriate contract terms;
- measuring and reporting on the performance of operators in the sector;

6. MAIN CHALLENGING ISSUES

- The absence of regulatory measures to ensure mandatory compliance with objectives local participation in the energy sector
- The development of institutional capacity for the implementation, monitoring and auditing of local content targets
- State support for programs to encourage research and development, technology transfer, skills development and business incubation in the energy sector.
- Mobilization of local financing to support the services sector

7. POTENTIAL BENEFITS OF LOCAL CONTENT TO TRINIDAD AND TOBAGO

- Greater retention of foreign exchange earnings and export of services
- Development of Human Capability in key areas of the sector
- National development including new business and employment opportunities and increase in the country's Gross Domestic Product
- Long term sustainable development and growth
- Export of local services and skills

8. LOCAL CONTENT AND DOMESTIC SUSTAINABLE DEVELOPMENT (OPPORTUNITIES)

The development of Local content in the energy sector would lead to national economic growth while addressing key sustainable development goals:

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- The ability of local companies to be able to build requisite competency and equally compete for tendered contracts within the energy sector both locally and abroad
- Increased human development via programs with Universities for internships at energy service companies, which can facilitate entrepreneurship
- Opportunities for local companies to participate in the establishment of an alternative energy industry
- A mechanism for diversification and long term sustainability of the energy sector

9. BARRIERS TO DOMESTIC LOCAL CONTENT DEVELOPMENT (THREATS/WEAKNESSES)

There are several **barriers** and practical limitations to be addressed in the implementation of a Local Content Policy in Trinidad and Tobago, which include:

- Lack of legislation and regulations to enforce local content policy
- The existence of bilateral treaties with other states which seek to discourage the implementation of local content programmes
- Lack of stringency and consistency in the application of work permit procedures
- Lack of uniformity or clear policy guidelines in the application of local content requirements in the state energy sector
- Inadequate dissemination of information to the local services sector on scheduling of projects and issue of awards for contracts

10. LOCAL CONTENT POLICY IMPLEMENTATION STRATEGIES TO DEAL WITH IDENTIFIED ISSUES

In developing policy guidelines for the development of Local Content it is important to analyse, find answers and take positions on a number of issues which include but are not limited to the following:

- i. One of the first issues which has to be settled and for which some agreement has to be reached is what constitutes an appropriate definition for Local Content. Local content has been defined in some quarters in terms of ownership, degree of control and financing as well as local value added. In the case of Trinidad and Tobago it is recommended that a suitable definition should encompass all the above mentioned themes.
- ii. All countries seek to maximise local content and go about doing so through the use of a number of instruments. Moral suasion has been used in some quarters and has been found to be inadequate. Evidence has shown that business organisations in Trinidad and

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Tobago will do only what is prescribed in law. In that context one has to look at the benefits to be derived from enacting legislation for this purpose and carefully consider the features which will be included in the laws and regulations. Consideration must also be given to how any proposed legislation/regulation will treat with bilateral and international treaties which are in place and presently impose conditions restricting local content.

- iii. In implementing local content there must be a clear recognition of the goals which are to be achieved or more fundamentally how would the country benefit by instituting a local content policy. Benefits could arise from a greater in country spend and the resultant multiplier effect from the increased economic activity. As a consequence increased development of human capital and capability is one such goal. In the area of project execution consideration may also be given to setting targets in terms of percentages of overall expenditure, dollar amounts or some combination of the two. There are some inherent benefits and drawbacks to using each approach.
- iv. Local content is often seen in terms of what the foreign companies contribute to the economy in terms of employment, human capital development, net inflows of foreign exchange and local value added. However, this role is not to be restricted to the foreign companies as the state energy companies have an obligation to set the stage and be the flag bearers in local content development. In that context the state companies must have a unified approach to local content development and lead by example in the implementation of local content policy.
- v. The policy should also deal with the model or type of institutional framework which should be put in place to promote, manage, measure and audit compliance to established local content targets. Consideration will have to be given as to whether the governance model is state or private sector driven. Of particular relevance will be the type of services to be considered in accounting for or contributing to local content development. These services must be considered from the standpoint of their strategic importance to the national development objective.
- vi. In a developing economy like Trinidad and Tobago with its limited absorptive capacity there are arguments for and against a phased approach to local content development. It is an accepted fact that all aspects of local content cannot be developed at the same time. Issues such as the availability of manpower and the ability of local educational institutions to deliver the requisite number of trained personnel in the different disciplines needed for the thrust will constrain this initiative. In that regard the issue of a phased approach becomes relevant and decisions will have to be made with respect to which of the subsectors will be targeted and the order in which it will be done. In that context decisions will also have to be made with respect to the measures which should

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be put in place to increase local capability and means for maximising training and job opportunities to achieve the targeted goal.

- vii. A local capital market is important to the development of local content in Trinidad and Tobago. It is an accepted fact that the local financial institutions have shown a reluctance to invest in the highly risky environment of exploration activity. This notwithstanding there are several areas which may be identified within the sector where domestic capital can make its presence felt. These areas could be identified within the development stages of the project for the provision of ancillary and general services.

11. CONCLUSION

The implementation of a Local Content Policy for Trinidad and Tobago energy sector is important for the country's continued economic independence and sustainable development. The energy sector has been the main vehicle for the country's growth, development and potential economic diversification and the implementation of a local content policy backed with appropriate regulatory measures and institutional support for implementation will aid in ensuring that greater benefits accrue to the country. Some of these benefits have been identified as increases in employment opportunities, development of human capital, retention of foreign exchange which will aid in the stimulation of and diversification into new industries, growth of the domestic capital market and ultimately the creation of a larger pool of talented individuals and institutions whose services could be exported abroad. In this drive the state has a responsibility to set the parameters as well as lead from the front by ensuring that the energy sector companies under state control act in one accord on this initiative.

Energy Research and Planning Division
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