

GLOBAL LOCAL CONTENT SUMMIT 2007, LONDON

**AN OVERVIEW OF THE LOCAL
CONTENT POLICY IN NIGERIA**

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Outline of Presentation

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- § Current Policy Outlook
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- § Focusing on the Opportunities
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- § Other Opportunities
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Introduction

Definition of Local content

Quantum of composite value added to or created in the Nigerian economy by a systematic development of capacity and capabilities through the deliberate utilisation of Nigerian human and material resources and services in the Nigerian oil and gas industry.

Objectives and Target of the policy

- § Increased participation by Nigerians in the oil and gas industry
- § Utilization of local raw materials and services
- § Fabrication of oil and gas facilities in-country
- § Reduction in the expatriate staff of operating and service companies
- § Capacity building through the development of local expertise
- § Gradual increase of the wealth generated by Nigerians.
- § Economic growth/growth in the GDP
- § 70% target by 2010

Current Policy Outlook

NNPC Directives of 13th October 2006

- § FEED and detailed engineering design to be domiciled in Nigeria.
- § Project Management Teams and Procurement Centres to be located in Nigeria.
- § Annual submission of Materials List and Master Procurement Plan for approved projects to the NCD by 31st January
- § Fabrication and integration of all fixed platforms weighing up to 10,000 tons, piles, decks, anchors, buoys, jackets, pipe racks, bridges, flare booms, storage tanks, galvanizing works for LNG and process plants in Nigeria.

- § **Assembling, testing and commissioning of subsea valves, xmas trees, wellheads and system integration to be carried out in Nigeria.**
- § **A minimum of 50% of the tonnage of FPSO topside modules must be fabricated in Nigeria. FPSO contract packages to be bid on this basis.**
- § **Third party services relating to fabrication and construction must be carried out in Nigeria**
- § **Contract awards for major projects must include binding agreements between the main contractor and Nigerian content sub – contractor(s)**
- § **All low voltage earthing cables of 450/750 V grade and lighting cables of 600/1000 V grade must be purchased from Nigeria cable manufacturers.**
- § **All carbon steel pressure vessels to be fabricated in Nigeria.**

- § Seismic data acquisition projects, seismic data processing projects, reservoir management studies and data management and storage services are to be carried out in Nigeria.
- § Concrete barges and floating platforms are to be fabricated in Nigeria.
- § Operation and maintenance of offshore production units, in particular FPSOs and FSOs, are to be performed by Nigerian companies.
- § Full utilization of Nigerian registered Insurance companies to maximize Nigerian content before placing risk offshore.
- § Full compliance with the provisions of the Cabotage Act.
- § Submission of detailed training and understudy programs by operators to maximize utilization of Nigerian personnel in all their areas of operations.

Legislation

§ Existing

§ Proposed

Existing Legislation

Petroleum Act

- § Regulations 25 and 38 of the First schedule to the Petroleum Act 1969, Cap P10 Laws of the Federation of Nigeria 2004**
- § Regulation 26 of the Petroleum (Drilling and Production) Regulations**

Regulation 25

The Minister may revoke any oil prospecting licence or oil mining lease, if in his opinion the licensee or lessee has failed to comply with any provision of this Act or any regulation or direction given thereunder.

Regulation 38

- § The holder of an oil mining lease shall ensure that within ten years from the grant of his lease the number of citizens of Nigeria employed by him in connection with the lease in managerial, professional and supervisory grades (or any corresponding grades designated by him in a manner approved by the Minister) shall reach at least 75% of the total number of persons employed by him in those grades and the number of citizens of Nigeria in any one such grade shall be not less than 60% of the total
- § The holder of an oil mining lease shall ensure that within ten years from the grant of his lease all skilled, semi-skilled and unskilled workers are citizens of Nigeria”.

Regulation 26

- § The licensee of an oil prospecting licence shall within twelve months of the grant of his licence, and the lessee of an oil mining lease shall on the grant of his lease, submit for the minister's approval, a detailed programme for the recruitment and training of Nigerians.
- § The programme shall provide for the training of Nigerians in all phases of petroleum operations whether the phases are handled directly by the lessee or through agents and contractors.

National Office for Technology Acquisition Promotion (NOTAP) ACT 1971

An Act to establish the National Office for Technology Acquisition and Promotion to monitor, on a continuing basis, the transfer of foreign technology to Nigeria and to provide for other related matters

Proposed Legislation

Nigerian Oil And Gas Industry Content Development Bill currently before the Nigerian National Assembly.

APPLICATION

Applicable to all matters pertaining to Nigerian Content in respect of all operations or transactions carried in or connected with the Nigerian Oil and Gas industry.

Minimum Nigerian content

Minimum Nigerian content for different projects set out in the schedule and NCD to set level where project description is not specified

- § Some targets may not be immediately attainable
- § Silent on what would happen if parties are unable to comply due to unavailability of human and material resources
- § A detailed waiver provision similar to Ministerial waiver under the Cabotage Act, should be considered.

Schedule A

CODE	DESCRIPTION	NIGERIAN CONTENT (NC) LEVEL	
		NC%	MEASURED UNIT
1 2	FEED AND DETAILED ENGINEERING & OTHER ENGINEERING SERVICES	NC%	MEASURED UNIT
3	DESCRIPTION		
4 5	FEED & Detailed engineering on Onshore facilities	100%	Man-Hour
6 7	FEED & Detailed engineering on offshore facilities- Shallow Water	100%	Man-hour
8	FEED & Detailed engineering on LNG facility 80%Man-Hour	80%	Man-hour
9 10	FEED & Detailed engineering on Gas gathering facilities	100%	Man-hour

11 12	FEED & Detailed engineering on Deep offshore facilities-Hull & topside modules	90%	Man-Hour
13 14	FEED & Detailed engineering on Deep offshore floating concrete structure	90%	Man-Hour
15	FABRICATIONAND CONSTRUCTION		
16	Description		
17	Terminal/Oil Movement Systems	100%	Volume
18	Drilling Modules/Packages	105%	Tonnage
19 20	Piles, Anchors, Buoys, Jackets, Bridges, Flare Booms, Storage Tanks, Pressure Vessels	100%	Tonnage
21	Umbilical	80%	Tonnage
22 23	Topside module (process modules & storage modules)	80%	Tonnage

24	Accommodation module	90%	Tonnage
25	Subsea systems	100%	Tonnage
26	Pipeline Systems	100%	Tonnage
27	Flow lines and Risers	100%	Tonnage
28	Utilities module/ packages	80%	Tonnage
29	<u>MATERIALS AND PROCUREMENT</u>		
30	Description		

CODE	DESCRIPTION	NIGERIAN CONTENT (NC) LEVEL	
1	Steel plates, Flat sheets, sections	85%	Tonnage
2	Steel pipes	75%	Tonnage
3	Low Voltage Cables	100%	Length
4	High Voltage Cables	65%	Length
5	Valves	80%	Number
6	Drilling mud – Baryte, Bentonite	90%	Tonnage
7	Cement (Portland)	90%	Tonnage

8	Cement (Hydraulic)	90%	Tonnage
9	Heat exchangers	70%	Number
10	Steel ropes	70%	Tonnage
11	Protective paints	80%	Litres
12	Glass Reinforced Epoxy (GRE) pipes	70%	Tonnage
13	<u>WELL AND DRILLING SERVICES/PETROLEUM TECHNOLOGY</u>		
14	Description		
15	Reservoir services		

16	Well completion services (permanent gauges & intelligent wells)	80%	Spend
17	Wire line services (electric open holes, electric cased hole, slickline)	45%	Spend
18	Logging While Drilling (LWD) services	60%	Man-Hour
19	Measurement While Drilling (MWD) (direction and inclination/Gamma ray)	70%	Man-Hour
20	Production drilling services	85%	Man-Hour
21	Performance services (T&P)	90%	Man-Hour
22	2D Seismic data acquisition services	85%	Length
23	Well Overhauling/Stimulation Services	85%	Man-Hour

24	Accommodation module	90%	Tonnage
25	Directional Surveying Services	85%	Man-Hour
26	Cutting Injections/Cutting Disposal Services	100%	Man-Hour
27	Recutting Inspection Services	85%	Man-Hour
1	Cased Hole Logging Services (Gyro, Perforation, Gauges, Gyro, PLT, Perforation, PLT, Gauges)	90%	Man-Hour
2	Well Watch Services	70%	Man-Hour
3	Cement services	75%	Man-Hour
4	Coiled Tubing Services	75%	Man-Hour

5	Pumping Services	95%	Man-Hour
6	Fluid/Bottom Hole Sampling Services	80%	Man-Hour
7	OCTS Services (Cleaning, hardbanding, recutting, rethreading, storage)	95%	Man-Hour
8	Well Crisis Management Services	90%	Man-Hour
9	Other Drilling Services	80%	Man-Hour
10			
11			
12	Petrophysical interpretation Services	75%	Volume/Man-hour
13	Extended Well Test/Early Production Services including Provision of floating or Jackup Production Unit	50%	Spend
14			
15			

16	Provision of all Catering, Cleaning, Office and Security Service at Location/Platform	80%	Spend
17			
18	Rental of Drill Pipe	75%	Spend
19	<u>RESEARCH AND DEVELOPMENT SERVICES</u> <u>(R&D)- Related to Operator's in-country services</u>		
20			
21	Description		
22	Engineering Studies- Reservoir, Facilities, Drilling etc	80%	Spend
23	Geological and Geophysical Services	80%	Spend
24	24Safety and Environmental Studies	75%	Spend

25	Local Materials Substitution Studies	75%	Spend
26	<u>EXPLORATION, SUBSURFACE, PETROLEUM ENGINEERING& SEISMIC</u>		
27	Description		
28	3D Seismic data acquisition services	100%	Spend
29	4D Seismic data processing services	65%	Spend
30	2D Seismic data processing services	100%	Spend
31	Geophysical interpretation services	90%	Spend

Award of contracts not to be based solely on lowest bidder

The award of contract shall not be solely based on the principle of lowest bidder; where a Nigerian indigenous company has a capacity to execute such job, the company shall not be disqualified exclusively on the basis that it is the highest financial bidder, provided the value does not exceed the lowest bid price by 10%

- § Increases the cost of doing business
- § Justifiable on the ground that indigenous companies cannot be expected to compete with foreign oil service companies – tax holiday
- § A specific time frame may be set
- § Similar clause contained in Angolan PSC

First Consideration for Indigenous Companies

Nigerian indigenous companies are to be considered first in the award of oil blocks, oil field license, oil lifting license and in all projects for which contract is to be awarded in the oil and gas industry subject to the fulfilment of such conditions as may be specified by the minister.

- § Grants the Minister wide powers and could be subject to abuse
- § Conditions vague, should be defined

Bids with more Nigerian Content

- § **Consideration of Nigerian content when evaluating bids**
- § **Priority to be given to bids with more Nigerian content.**

List of documents to be submitted and approvals required for contracts of \$1,000,000.00

- § Cumbersome provisions on documents to be submitted and approvals required from the NCD for award of contracts
- § The workability of some of the provisions is very doubtful
- § Implementation may lead to a lot of delays and bureaucratic bottlenecks

Establishment of Project Offices in host communities

The operator or other body submitting a plan shall establish a project office in the local government area where the project is to be located.

- § Laudable and will bring oil companies closer to the communities
- § Development of infrastructure
- § Employment for the locals
- § Stop the civil unrest.

Restriction on employment of expatriate staff

Maximum of 5% of management position as expatriate positions

- § Prior approval of the NCD required before applying for expatriate quota.
- § Approval may lead to duplication of roles between the NCD and the Ministry of Internal Affairs
- § Need for harmonisation
- § Adopted in August 1996, tagged the “new deal”. Criticised for duplicity of roles

Labour Clause

All projects or contracts in excess of USD\$100 million should contain a labour clause mandating the use of a minimum percentage of Nigerian labour in specific cadres stipulated by the NCD.

Research & Development

The minister shall make requirements and targets for the growth of R&D in the industry

- § The operator shall submit to NCD, every six months , the operator's R&D plan
- § Outline a revolving three to five year R&D plan
- § The operator shall report to the NCD on quarterly basis on its R&D activities

Technology Transfer

Submission of a plan to the NCD annually setting out initiatives aimed at promoting the effective transfer of technology to Nigerian individuals and companies

§ Initiative left to the IOC

§ NCD should take the initiative and specify the conditions that must be met by operators.

Fiscal Incentives For Local Production

Foreign and indigenous companies which establish the following in Nigeria for production purposes to be given fiscal and tax incentives

§ Facilities

§ Factories

§ Production units

§ Other operations

INSURANCE

- § The proposed bill makes it mandatory for all operators to insure risks related to the oil and gas industry with Nigerian registered insurers.
- § No insurance risk in the oil and gas industry shall be placed offshore without the approval of the National insurance commission

Utilization of Nigerian Law firms

- § All operators shall retain only the services of Nigerian law firm(s) whose offices are located in Nigeria
- § All operators shall submit its legal services plan to NCD every six months

Financial Institutions

All operators engaged in any operation or transaction in the Nigerian oil and gas industry requiring financial services shall retain only the services of Nigerian financial institutions or organizations, except where to the satisfaction of the NCD this is impracticable.

Regulatory Authority

Conflict in the bill on the government agency, which has the power to implement and enforce the provisions of the bill NCD or DPR

- § Define roles to avoid future conflicts
- § Harmonise if implementation is joint

Offences and Penalties

A fine of 5% of the project sum and or cancellation of the project upon conviction is prescribed for erring operators, contractors, sub - contractors.

- § Some vague provisions may make it difficult to secure a conviction
- § Length of time to secure a conviction may limit the effectiveness
- § Carrot and stick approach may be more effective
- § Definition of operator – NNPC, its subsidiaries and JV partners and any Nigerian or foreign/ international oil and gas company operating in Nigeria

Focusing on the Opportunities

- § Capacity building/technology transfer, Joint venture/alliances between Nigerians and foreigners
- § Creation of indigenous oil and gas supplies companies
- § In-country production and manufacturing and consequent growth of GDP/economy
- § Job creation
- § Provision of infrastructure
- § Development of host communities which may reduce the tension in the Niger Delta Region
- § Reduction in capital flight
- § Deployment of acquired skills and technology to service other sectors of the economy and expert services in the sub regions
- § Strong Nigerian economy – FG's objective of making Nigeria one of the world's top 20 economies by 2010

Specific Challenges Expected

- § Capacity
- § Quality
- § Capital
- § Size of indigenous companies
- § Infrastructure
- § Role played by IOCs and foreign oil service companies
- § Challenging regulatory framework
- § Security Issues

Capacity

- § Over 85% of the annual expenditure in the oil and gas sector is spent on foreign goods and services with no impact on the Nigerian economy.
- § Concerted effort by all stakeholders particularly, Nigerians to build local capacity.
- § Development of manpower, skills and technical know – how, raw materials etc – FG organizing training programmes for its citizens

Quality

Harmonisation with international standards

Local Content policy encourages the use of indigenous raw materials and services without compromising standards.

Capital

- § Highly capital intensive industry
- § Lack of adequate funding – Access to funds have dogged participation by indigenous companies in the oil industry
- § High interest rates and short term facilities offered by Nigerian banks making sourcing for funds an uphill task.
- § Restricted access to foreign loans

Size of indigenous companies

- § Improve quality of their products, investing in staff and capital assets
- § Mergers and acquisitions with other companies to compete with foreign oil service companies
- § Large global players, small independents

Infrastructure

High cost of doing business –
communication, transportation,
health facilities etc.

IOCs and Foreign Oil Service Companies

- § Substantial training
- § Technology transfer
- § Investment in local communities,
- § Contracting process which would cede operations to Nigerians should be encouraged

Challenging Regulatory Framework

- § Implementation of the policy
- § Consequences of breach
- § Existing Legislations like NOTAP and Petroleum Act etc

Security Issues

- § Attention must be given to the unrest, hostage taking, vandalism of pipelines and facilities in the oil producing states particularly in the Niger Delta region.
- § Participation of the oil producing communities in the petroleum industry.

Other Opportunities

- § Establishment of a Joint Qualification System (JQS)
- § Nigerian Content Consultative Forum (NCCF)
- § Contracting Process- Production Sharing Contract
- § National Petroleum Investment Management Services (NAPIMS)

Establishment of a Joint Qualification System (JQS)

- § Industry data bank of available capabilities
- § Sole system for Nigerian content registration and pre - qualification of contractors
- § Verification of contractors' capacity and capabilities
- § Tracking and monitoring of performance

Nigerian Content Consultative Forum (NCCF)

- § Information sharing on local capabilities
- § Collaboration on upcoming projects in the industry

Contracting Process

- § Policies to ensure technology transfer and personnel
- § PSC-The Government can ensure that operators fully comply with the provisions of the content policy.

National Petroleum Investment Management Services (NAPIMS)

To manage the Federal Government's petroleum investments in the upstream sector and ensure compliance with the content policy.

Conclusion

Create the right enabling environment

- § Capacity
- § Provide adequate funding
- § Address security issues
- § Give Budgetary/fiscal incentives
- § Encourage dialogue between Legislators and stakeholders
- § Establish the right legislature/policy framework

Stakeholders to develop a win win attitude

Commitment and dogged determination will pave way for success

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