

Book review

Eduardo G. Pereira and Tonje P. Gormley (eds), *Local Content for the International Petroleum Industry* (PennWell 2018) xxvii + 482 pp, \$88.72 (hardpack) ISBN: 9781593704100

1. The importance of local content in the upstream sector

Petroleum exploration may have a multiple impact on resource-rich states. When successful, it can increase national revenues. Apart from this direct financial contribution, hydrocarbons may enhance the socio-economic progress of local communities and their people. To ensure that petroleum operations (especially those conducted by foreign companies) will boost domestic economies, host countries seek to increase the local content in their industry.

Local content is not a term of art. It typically describes the added value brought to the local community by the oil and gas industry through the use of domestic services, transfer of technology, industry training, and employment of nationals. While it is widely agreed that local content is of significant importance and must be implemented in the petroleum sector, little is known about the application of this strategy across the world or its efficacy. Do all rich-resource states adopt a similar strategy and promote local content equally? Is there a model policy to be followed for better results? *Local Content for the International Petroleum Industry* addresses those issues in a systematic and thorough manner. To achieve that, the book offers an edited collection of 19 chapters, each referring to a different country.

The examined jurisdictions include some of the world's top petroleum producers as well as some new (hence, less experienced), players in the upstream sector. The book classifies the analysed countries into three distinct groups:¹ group A comprises the major oil and gas producers with the highest experience in local content. Such examples are: Angola, Algeria, Brazil, Canada, China, Egypt, Iran, Libya, Nigeria, Norway, and Qatar. Group B consists of emerging countries with recent petroleum discoveries, which are yet to test their local content measures. These include: Ghana and Mozambique. Group C represents recently discovered petroleum provinces with higher hope for large hydrocarbon discoveries, which

¹ Table I-1, xxvi.

are yet to find and/or produce large-scale hydrocarbon discoveries. Examples are: Cyprus, Kenya, Lebanon, and East-Timor.

2. Local content: not a one-size-fits-all concept

The book argues that “there is no one-size-fits-all model for successful local content development.”² Although local content requirements and policies are fairly similar across resource-rich countries, the level of successful implementation is rather divergent.³ To some extent, that is expected. Each of the examined countries (even those from the same group) has a system with distinct economic, legal, and political features. This in turn leads to different experiences with local content development. Yet, together, all three groups and their examined jurisdictions offer some “interesting perspectives for all types of host countries.”⁴

3. Contribution of the book

The editors, Eduardo Pereira and Tonje Gormley, possess extensive practical expertise in the international petroleum sector. The authors of the 19 chapters (Theophilus Acheampong, Sayed El Araby, Berryl Claire Asiago, Nigel Bankes, Bernardo Correia Barradas, Loïc Conan, Paolo Esposito, Kamran Fatahi, Catarina Cortez Gamito, Waniss Otman, Patricia Rosario, Thomas Kojo Stephens, Daniel Szyfman, Manuel Santos Vitor, Leslie Zhang Weihua) are also specialists (practitioners or academics) from various fields including: law, economics, geopolitics, geology, and risk management. Their theoretical and practical knowledge on local content policies is combined accurately throughout the book producing a balanced analysis.

The book begins with an introduction to the topic and the followed approach. The chapter clarifies the importance of local content for the petroleum industry and why the adopted policies must be effective. States should adopt viable and sustainable local content policies, which must be aligned with the other economic development policies of the specific country. Therefore, the actors responsible for the above relevant sectors (e.g ministries) should consult and cooperate with each other. Some countries adopt a rigid, prescriptive approach, whilst others take a more dynamic or goal-oriented approach. However, it is pointed out that

² xv.

³ xvi.

⁴ xxvi.

host governments should be realistic when setting their policy aims, and appreciate the long-term effects of their system.

Chapters 1-19 are the core of the book. Each chapter examines a different jurisdiction, namely: Algeria, Angola, Azerbaijan, Brazil, Canada, China, Cyprus, Egypt, Republic of Equatorial Guinea, Ghana, Iran, Kenya, Lebanon, Libya, Mozambique, Nigeria, Norway, Qatar, and Timor-Leste. For every country, the author(s) provides an overview of the domestic petroleum system, introduces the key players in the upstream sector, examines the regulatory and contractual rules for local content development, and assesses the policies followed by the respective host states.

A detailed discussion on each chapter would fall beyond the scope of the present review. However, certain chapters stand out for their depth of analysis and quality of information. Indicatively, reference can be made to the chapters about Norway and Brazil. The former provides a detailed overview of the Norwegian petroleum industry and the dynamic approach which the competent authorities adopted in their legislative and policy developments for the promotion of local content. The so-called "Norwegianization" of the petroleum industry through preferential treatment of local goods and services along with strong state participation were the main goals in Norway from the start. Yet, the main challenge for the Norway was to not hinder foreign private investments. Nonetheless, the country's functional democratic institutions created a stable environment for private investors and ultimately, enabled the introduction of local content requirements through national legislation. Results of this effort materialized very quickly, which makes Norway an ideal case study.

By contrast, Brazil offers a different experience. Brazilian petroleum contracts do bear a requirement for companies to hire local goods and services. Interestingly, however, concessioners can seek relief from the local content penalty for non-compliance. To assess the efficacy of the Brazilian policy, the authors perform a comparison with the United Kingdom and Norway, two major oil and gas producers, as well as with Malaysia, which is one of the world's leading liquified natural gas players. They observe that Brazil is not a country which successfully materialized the benefits of local content to its economy, like Norway. This calls for a reassessment of the Brazilian local content policy and the taking of further actions by the government in the future.

The concluding chapter summarises the main findings. It is observed that all examined countries (from industrialized to developing ones) have modelled policies to promote local content in their petroleum operations. However, these policies bear significant differences from one place to another. In some countries, like Norway, local content requirements are no longer mandatory. In others, like Canada, a divergence is observed within the various jurisdictions of the federation, although local content development is associated with the rights of indigenous people equally across the country. Also, although local content is pertinent in all examined countries, it is also a challenging exercise. Host governments are often faced with issues of international competition, lack of suitable technology or absence of an educational system which produces skilled manpower.

Another difference is observed in the means for the implementation of local content policies. Each country has its own rules -some being flexible, whereas others imposing detailed and mandatory thresholds for local content. The supervision and enforcement of those rules also varies among jurisdictions.

Despite the above differences, it is proposed that all countries strike a delicate balance between local content and the goals of other policies, such as investment promotion and economic development. These should be considered together as a whole, without being detrimental to each other.

The analysis of multiple countries from different continents could offer important lessons. Particularly, countries from group A with large discoveries and high experience in local content could provide lessons to countries from group B which are eager to increase local content, and in the long term, to group C which comprises nations with a prospective interest in local content if significant discoveries are made in the future.

Norway sets an example of successful local content implementation in the petroleum sector. Still, as the authors observe, successful countries "might have had timing and unique framework conditions in their side"⁵ which might not be the case in other areas. In other words, success largely rests on the context of the host country. Therefore, the relevant local content policies must be adapted to those peculiarities and, above all, be realistic. It is often expected that petroleum exploration will lead to rapid job creation. However, that is only the

⁵ 439.

case for certain stages of operations and for specific periods of time during the life of a project. Another factor of success is cooperation. All relevant authorities must align their goals and balance their approaches with a view to progress.

Before taking any actions, host states must ask the following questions: is there a need for a full-service domestic oil services industry? Can the host country facilitate the development of domestic oil services industry in time for the companies to comply with mandatory requirements? Can the domestic oil services industry match the pace of the development of the petroleum industry? Many countries have switched from one policy approach to another in order to find a suitable model for local content development. As the book suggests, "it is important to find a balance between the reality of the host country and its expectations."⁶

The book makes accurate and convincing points. It remains to be seen whether host states, especially those from groups B and C will take these lessons into consideration. The book might have benefitted from the inclusion of other important oil and gas players, like the United Kingdom⁷ and Russia, or less discussed countries in literature, like India. Also, the rapid developments in technology and the increasing new discoveries of petroleum in remote or unexperienced countries are likely to generate new actors in the upstream sector which are not yet covered in this volume.⁸ In that case, it might be useful for a second edition of the book to follow in the future.

In sum, *Local Content for the International Petroleum Industry* is well-structured and clearly argued with supporting evidence. It analyses the local content policies in multiple and diverse jurisdictions, reaching some interesting and useful conclusions. The book is highly recommended to anyone associated with the upstream sector or generally interested in local content in the petroleum industry. This includes: academics, practitioners, public officials, corporations, NGOs, as well as local stakeholders.

⁶ 442.

⁷ A brief reference to the United Kingdom is made in Chapter 4 about Brazil. However, a more extended analysis on the country's regime (as a global leader in the petroleum sector) along with a discussion about potential changes in local content policies post-Brexit would have been welcome.

⁸ An example is Guyana.