

# Local content rules: From compliance to shared value

By H. Sola Oyinlola

Chairman, Africa & Global Head of Sustainability, Schlumberger



In oil and gas producing nations worldwide, 'local content' policies are intended to increase local employment, enhance technology transfer, expand local procurement, improve social conditions, and build local infrastructure to drive sustainable economic growth.

The wealth unleashed by oil and gas extraction can empower national economies through well-known 'multiplier' effects that generate growth in other sectors. In this article, we suggest areas in which governments, regulators, and industry players might collaborate to create shared value and minimise project costs, delays and social unrest through better local content planning and implementation.

Decades ago, Norway enacted legislation to accelerate the development of its national oil and gas resources, requiring international operators and oilfield service providers to hire Norwegians for local projects and bring research, procurement and manufacturing activities in-country. Norway's success at 'in-country value creation' led many other oil producing countries to emulate its approach to local content.

From a global perspective, local content legislation falls into two broad categories. First, nations such as Brazil, Angola, Nigeria, Uganda, Kazakhstan, Indonesia, Malaysia and Ghana have local content laws already in place. They may have set targets for the

recruitment and training of nationals, for technology transfer, for the procurement of domestic goods and services, or for partnerships with local investors and locally owned enterprises. Non-compliance can have serious consequences, although regulators may waive penalties when company plans demonstrate a strong commitment to local content.

Second, nations such as Kenya, Tanzania, and Mozambique are currently investigating or developing ways to meet their local content aspirations. These and other nations have no formal legislation, but observe which companies incorporate significant local content in their project plans, and those which do not. They approach the issue carefully, consulting, scrutinising contracts, and offering incentives to those who hire nationals, who domicile facilities such as engineering design, platform construction, and refineries, partner with nationals, and who invest in social infrastructure such as education and health care.

Not surprisingly, the rapid expansion of local content legislation worldwide has led to a certain amount of tension between regulators and international corporations. Companies that do not actively invest in local content run the risk of disrupting their business, while those who are proactive may gain competitive advantages. We encourage global organisations to treat emerging local content policies as a strategic opportunity

to create shared value, rather than an unpleasant issue to be 'managed'.

**With 125 research, engineering and manufacturing centres worldwide, Schlumberger is working to relocate more capacity to under-represented countries**



## Talent development

Ensuring national diversity was part of the Schlumberger approach long before our host countries began establishing target headcounts. However, we approached talent development differently from most current regulations. If, say, 20 per cent of our revenues came from a country, we would recruit 20 per cent of our workforce from its population.

Depending on a country's stage of exploration and



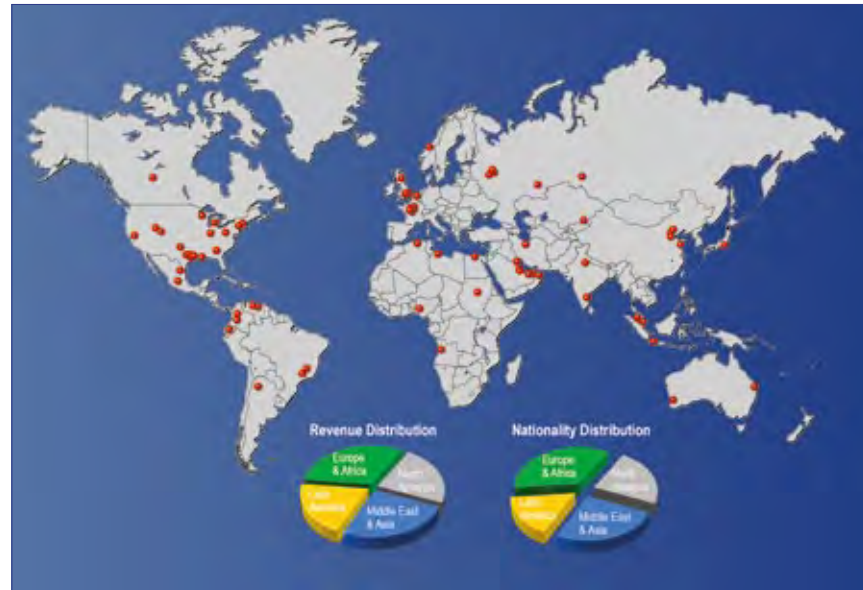
development, we take a long view on how best to develop local talent. For example, to support our customers' exploration programmes, some recruits work as trainee engineers in our reservoir characterisation or drilling segments. To ensure that our petrotechnical professionals (PTPs) become competent, competitive and autonomous, we offer opportunities to work in-country, regionally, or elsewhere in the world. All of our engineers undergo identical training in the same world-class facilities, regardless of their nationality or geographic location. When they return home, they bring richer skills due to experience in diverse oil and gas provinces and operations.

In the exploration stage, therefore, not immediately meeting a local headcount target may not represent a lack of progress, if local recruits are training elsewhere to work more safely and professionally when they return.

Nevertheless, many local content laws today require operators and service providers to hire a specific percentage of their in-country workforce from the national population. Reaching these targets can be challenging, given the small pool of qualified PTPs in some nations. In those places, governments need to invest more in the educational infrastructure, and STEM education in particular. Then industry participants can provide additional training opportunities, investments in STEM infrastructure, and teachers to further develop technical talent and spur economic growth.

### Shared value approach

Shared value is a management strategy that addresses social problems that intersect with the business. Not only does it help resolve the issue, but it creates additional business value. Rather than reactively managing social risks, a shared value approach provides a proactive, holistic view of the company's place in a local socio-economic ecosystem. The goal is to create win-win outcomes.



**Schlumberger recruits from key universities worldwide (shown in red dots) where the company has long-term relationships, including research partnerships. The company's revenue distribution reflects the company's nationality distribution by geographic region**

At Schlumberger, our shared value approach leverages existing corporate strengths – for example in recruiting and research and engineering (R&E – to tackle specific gaps in local content, such as local manpower, and solve local oil and gas engineering challenges. When local regulators take a similar 'long view' and collaborate on local content, host countries win in the long term. They gain an abundance of well-trained personnel for every stage of E&P activity and, eventually, the multiplier effect extends to other sectors of the economy.

Several years ago, Schlumberger crafted our global shared value strategy to guide local content initiatives and begin moving beyond mere compliance with hiring quotas and contractual obligations. We developed a set of 'guiding principles'. We held strategy workshops in several countries to educate regional managers, better understand each host country's aspirations, and determine how to align our competences to deliver more effective outcomes and accelerate execution of local content plans.

Our guiding principles include the following:

- Proactively engage with regulators and customers (oil and gas companies) to understand their local content priorities, and jointly determine how best to satisfy them.



- Develop national capabilities in five critical areas: local employment, local procurement, local R&E and manufacturing, technical partnerships with indigenous operators, and alliances with indigenous service companies.
- Apply rigorous and compelling metrics to monitor and report local content compliance, identify gaps, and highlight situations in which we can, in fact, go beyond compliance.
- Analyse the needs of host communities, develop a portfolio of social investment programmes, and collaborate with other stakeholders to enhance national education systems to enlarge the talent pipeline and eliminate short-term impediments to local participation in the supply chain.

By reviewing each country's requirements and marrying them with our core competences, Schlumberger is actively filling gaps in local capabilities.

**Local talent:** For example, in many frontier countries, our shared value approach dictates that we recruit locally while training and developing talent globally to quickly build the pool of available PTPs. We invest in local technical institutions and universities to build their capacity, equipping their labs and providing industry-standard software.

**Local research, engineering and manufacturing:** We constantly review locations for new manufacturing, research and engineering centres, wherever the strategic economic value added by local operations can justify the often prohibitive costs. Currently Schlumberger has 125 research, engineering, manufacturing and sustaining centres throughout the world. Although most are still in North America and Europe, we have adopted a policy to relocate more capacity to under-represented countries. In recent years, for example, we have established R&E or manufacturing facilities in Russia, China, Malaysia, Singapore, Brazil, and Saudi Arabia. With additional incentives, host governments can encourage more international investors to locate industrial and technological activities in their countries.

**Local sourcing:** Our shared value approach also ensures that more product sourcing comes from countries in which we operate depending, again, on economic considerations. Our strategy is to 'procure where we work' by helping local suppliers develop their capacity to meet the quality specifications of our

industry. This enables us to continue to work safely, with sound environmental practices, hopefully with quicker deliveries from local vendors. For example, Malaysia's investment in telecommunications infrastructure led companies such as Schlumberger to establish large regional centres for seismic processing, back office accounting, and IT. Today, Malaysia's technically proficient talent pool in electronics assembly and manufacturing provides thousands of high quality jobs, not only in oil and gas.

**Local partnerships:** Finally, we create shared value through new integrated services business models with indigenous oil and gas companies. Not only does the Schlumberger Integrated Project Management (IPM) segment deliver high-quality integrated services, but we help empower local E&P customers to become self-sufficient, world-class operators through collaboration, training, state-of-the-art technology transfer and technology mastery. We believe we will prosper as our customers grow. Together, we can develop greater opportunities for future generations.

## Recommendations

Despite making considerable strides in recent years, many foreign operators and service companies still struggle to meet local content expectations. Clearly, it will take more time. However, those who make local content a strategic priority will both differentiate themselves and help the global industry retain its social license to operate in the coming years.

We recommend the shared value approach to other industry players. In countries that need to show purposeful growth in employment and oil and gas infrastructure, they should target incremental investments in local centres of excellence in procurement, training, research, engineering, manufacturing, local service companies and so on. Meanwhile, host governments should provide financial incentives, faster decision making, re-export licensing, and other collaborative initiatives to encourage greater foreign investments in their economies. Governments today also have unique opportunities to differentiate themselves from other oil and gas producing nations based on their ability to attract inward investments. Collaboration toward shared growth and development should be the primary measure of success for all who have a stake in this important industry. ■