Nigerian/Local Content Policy

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Outline

• What is Nigerian/local content?
• Policy History
• Other countries
• NCD bill
• Current Initiatives
What is Nigerian/local content?

• the phrases are often used interchangeably
• The Nigerian content development bill defines it as:
  – “…the quantum of composite value added to or created in the Nigerian economy by a systematic development of capacity and capabilities through the deliberate utilization of Nigerian human, material resources and services in the Nigerian Petroleum Industry”

Odujinrin & Adefulu estd. 1972
What is Nigerian/local content? (contd.)

• Value creation or addition in the Nigerian economy;

• Development of capacity;

• Utilisation of Nigerian human, material resources and services
  – Involves supply of services and products
  – Employment of nationals

Odujinrin & Adefule, 1972
Policy history

• A lot of talk very little action!

• Under the JOA:
  • the operator is required to give preference to a contractor that is organised under the laws of Nigeria to the maximum extent possible as long as there is no significant difference in price or quality between such contractor and others

• 2005 PSC
  • provides that NNPC and the contractor *aspire* to maximise local content in all areas of petroleum operations under the PSC.

Odujinrin & Adefulude, 1972
Policy history (contd.)

• Reg. 26 of the Petroleum (Drilling and Production) Regulations:
  • provides for the holder of an OPL within 12 months of the grant of his license, and the holder of an OML upon the grant of his license to submit a detailed programme for the recruitment and training of Nigerians for the approval of the minister.

• Paragraph 37, Schedule 1 of the Petroleum Act provides that within 10 yrs of grant of OML:
  • Nigerians in managerial, professional & supervisory grades in connection with lease must be 75% of total staff;
  • Nigerians in any one grade must not be less than 60 per cent of the total, and
  • all skilled, semi-skilled and unskilled workers are citizens of Nigeria.

Odujinrin & Adefulu 1972
• The 2005 Model PSC:
  • at least 80% and 85% of the total number of persons employed in managerial, professional and supervisory grades by the 15th and 20th year respectively.

Does any OML holder meet these obligations?
Critique of prior policy positions

• Weak initiatives with regard to supply of services;
  – No focus on where services are initiated;
  – Obligations are contractual not statutory or regulatory

• Stronger terms with regards to the employment of Nigerians but evidence suggests that this has not been successful;

• Obligations are imposed on the holder of the OML and no requirement to ensure that contractors are similarly obliged;

Odujinrin & Adefule, 1972
Other countries

- UK
  - Licensing policy
    - Licenses would only be awarded where the potential licensee shows his commitment to the use of British suppliers;
    - Prior actions would be taken into account;
    - Ministerial approval for development plans required a demonstration of efforts being taken to ensure the maximisation of British content;
  - Offshore supplies office was created and it entered into voluntary agreements with oil producers
    - Regarded to be successful because oil producers retained the final control over contract awards
• Norway

  – Statoil (Norwegian State Oil Company)
    • JOAs required Norwegian coys to be included in all requests to bid and that Norwegian service be used if competitive;
    • Statoil held 51% in each committee and actively used its voting power to influence the appointment of Norwegian suppliers;

  – Goods and service office was created by law
    • Norwegian coys to be chosen if competitive;
    • License awards was influenced by prior practice

  – Detailed legal provisions in relation to R & D
    • 50% to be conducted in Norway
Recent developments in Nigeria

• The early 2000s witnessed a more aggressive and focused approach to local content
  – Led by NAPIMS
  – 3 major studies:
    • National Committee Report
    • INTSOK Report
    • Synchronised Report
  – This provided the foundation for the Nigerian Content Development Bill
Thrust of new policy

• aimed at ensuring that substantial proportion of activities, materials, engineering parts and human capital utilised in the Nigerian oil and gas industry is domiciled within the country.

• The domiciliation focus on local value addition, and promotes technology transfer.

• Stop oil and gas from being an “enclave” economy and create linkages to the wider economy

• The need to Nigerianise over USD 9 billion of annual spending in the petroleum industry

Odujinrin & Adefulu estd. 1972
Key Provisions of the Bill

• The Establishment of a Nigerian Content Monitoring Board to monitor the achievement of local content in the oil and gas industry
  – Governing council of the board constituted primarily of government and government agencies
  – Operator must submit Nigerian Content performance report which would be assessed and verified by the Board
  – Board may issue directives to facilitate reporting
• Nigerian content plan to be submitted and approved in the bidding for any licence and before carrying out any project
• Minimum Nigerian content in projects in the oil and gas industry specified
• “First consideration” to be given to Nigerian goods and services
• Bidding process for acquiring goods and services shall give “full and fair” opportunity to Nigerian indigenous contractors and companies
Key Provisions (contd.)

- Nigerians to be given first consideration for employment and training
- Succession plans for positions not held by Nigerians
- Maximum of 5% of management positions for expatriates
- Board to approve before application for expatriate quota is made
- Nigerians to constitute a minimum of 60% of the Board
Key Provisions (contd.)

- R & D plan to be submitted
- Minister required to make regulations to require any operator to invest in or set up factory to carry out any production, manufacturing otherwise imported into Nigeria
- All insurable risks to be insured with Nigerian insurance companies
- Only services of Nigerian lawyers or law firms to be retained
Local content provisions in the Petroleum Industry Bill

• Imposes an obligation on the Nigerian government to promote the use of indigenous companies in the petroleum industry
• Empowers the Petroleum Inspectorate to revoke a license, permit etc if Nigerian local content law is not complied with
• Repeats employment provisions of NCDB
• Requires licensee to submit a detailed programme for recruitment and training of Nigerians
Current Activities

• NCD
  – Part of NNPC & established in 2006

• Goals
  – To achieve 45% local content in oil and gas spend by 2006
  – To achieve 70% local content value in the provision of materials, services and equipment to the local oil and gas industry by 2010
  – To create an economic engine for growth, driving employment, wealth creation and improved linkage between the Oil and Gas industry and other sectors of the Nigerian economy”
  – The division is working to enable a transformed Oil and Gas industry with well-developed in-country capacity and local capabilities, a competitive supply and services sector and ultimately, the hub for energy service delivery in Africa

Odujinrin & Adefulu estd. 1972
NCD directives

- FEED and detailed engineering design for all projects is to be domiciled in Nigeria.
- Project Management Teams and Procurement Centres for all projects in the Nigerian Oil and Gas industry must be located in Nigeria.
- Henceforth, all operators and project promoters must forecast procurement items required for projects and operational activities and forward the Materials List NCD on or before 31st January of every year. Also, a Master Procurement Plan (MPP) for ongoing and approved projects should be submitted to the Nigerian Content Division of NNPC on or before 31st January of every year.
- Fabrication and integration of all fixed (offshore and onshore) platforms weighing up to 10,000 Tons are to be carried out in Nigeria. For the fixed platforms (offshore and onshore) greater than 10,000 Tons, all items in directive 5, pressure vessels and integration of the topside modules are to be carried out in Nigeria.
• Henceforth, fabrication of all piles, decks, anchors, buoys, jackets, pipe racks, bridges, flare booms and storage tanks including all galvanizing works for LNG and process plants are to be done in Nigeria.

• Henceforth, all flow-lines and risers must be fixed and must be fabricated in Nigeria except for special cases to be demonstrated and approved by NCD.

• Henceforth, Assembling, testing and commissioning of all Subsea valves, Christmas tees, wellheads and system integration tests are to be carried out in Nigeria.

• All FPSO contract packages are to be bid on the basis of carrying out topside integration in Nigeria. A minimum of 50% of the total tonnage of FPSO topside modules must be fabricated in Nigeria.

• All third party services relating to fabrication and construction including but not limited to NDT, mechanical tests, PWHT as well as certification of welding procedures and welders must be carried out in Nigeria. Nigerian Institute of Welding must certify all such tests in collaboration with international accreditation bodies.
NCD directives (contd.)

• All operators and project promoters must ensure that recommendations for contract awards in respect of all major projects being forwarded to NNPC/constituted boards of such oil and gas companies for approval must include evidence of binding agreement by the main contractor with Nigerian Content Subcontractor(s). Such agreements shall indicate the cost and detailed scope including total man-hours for engineering, tonnage and man-hours of fabrication and relevant defining parameters for materials to be procured locally as well as other services.

• Henceforth, all low voltage Earthing cables of 450/750 V grade and Control, Power, Lighting Cables of 600/1000 V grade must be purchased from Nigerian cable manufacturers.

• Henceforth, all Line-pipes, sacrificial anodes, Electrical switchgear paints, ropes, pigs, heat exchangers and any other locally manufactured material and equipment must be sourced from in-country manufacturers.
NCD directives (contd.)

- All carbon steel pressure vessels shall be fabricated in Nigeria.
- All seismic data acquisition projects, all seismic data processing projects, all reservoir management studies and all data management and storage services are to be carried out in Nigeria.
- Henceforth, all waste management, onshore and swamp integrated completions, onshore and swamp well simulations, onshore fluid and mud solids control, onshore measurement while drilling (MWD), logging while drilling (LWD) and directional drilling (DD) activities are to be performed by indigenous or indigenous companies having genuine alliances with multinational companies.
- Henceforth, coating of all Line-pipes and threading of all oil country tubular goods (OCTG) are to be carried out in Nigeria.
- Henceforth, all concrete barges and concrete floating platforms are to be fabricated in-country.
• Henceforth, operation and maintenance of offshore production units, FPSO and FSO in particular, are to be performed by Nigerian companies.

• All international codes and standards used in the industry are to be harmonized to support utilization of locally manufactured products such as paints, cables, steel pipes, rods, sections, ropes etc and to improve capacity utilization in local industries. Clauses that create impediments for/exclude participation of local companies should not be included in any ITT.

• Operators and project promoters must ensure that recommendations for contract award for all drilling contracts shall include a binding agreement at Technical Evaluation stage for the sourcing of Barite and Bentonite form local manufacturers.
NCD directives (contd.)

• Henceforth, all projects and operations in the Oil and Gas industry must demonstrate strict compliance with provisions in the insurance Act 2003 and submit a certificate of compliance issued by NAICOM to NCD as part of technical evaluation requirements for insurance or reinsurance Contracts. In this respect, NAICOM verified Gross underwriting capacity of Nigerian Registered Insurance companies must be fully utilized to maximize Nigerian Content before ceding risk offshore.

• Henceforth, all projects and operations in the Oil and Gas industry must demonstrate strict compliance with provisions of the Cabotage Act.

• All operators and service providers must make provisions for targeted training and understudy programs to maximize utilization of Nigerian personnel in all areas of their operations. All operators must therefore submit detailed training plans for each project and their operations.