

How content would Ghana's Local Content Policy be?

By Stephen Yeboah

“Maximizing the benefits of local content is not the same as to maximize local content” – Mr. Willy Olsen, Former Advisor to the President and CEO of Statoil & Senior Advisor to INSTOK.

Inarguably, the issues bordering local content are increasingly gaining prominence and drawing wild attention. The idea to drive the participation of Ghanaians in the nascent oil and gas sector remains very crucial if Ghana is to elude the nagging challenges of the resource curse. As such the Local Content Policy initiatives being spearheaded by the government have been deemed thoughtful by local entrepreneurs, international donor agencies and even international oil companies. It is no wonder Vice President, John D. Mahama in a keynote address read on his behalf by Dr. Oteng Agyei, Minister of Energy during the Ghana Summit on Oil, Gas and Frontier Province, asserted that “the active involvement of Ghanaians in the oil and gas exploration, development, production and utilisation through local content and local participation has become a major policy issue”

It is imperative to state that several countries including Trinidad and Tobago, Norway, Brazil, Malaysia, Angola, Papua New Guinea, Venezuela, Russia, Kazakhstan, Timor-Leste, Nigeria, among others have set ambiguous targets to create local value in the oil and gas sector. The importance of the policy to various economies in terms of job creation, income generation, business expansion and industrialisation drive remain outstanding. In Brazil, Petrobras through its local content strategies with the government agency Sabre have resulted in the participation of 2,300 small and micro companies, a major drive to massive industrialization

While the policy has been successful in some countries, others remain very impotent to cause a change in local capacity growth. These are the available two paths for Ghana to start the journey. The question that deserves to be asked is that “would Ghana's Local Content Policy provide the platform for optimum satisfaction to local companies in the supplier chain phase?” Again, which phase of the oil industry would Ghanaians benefit; the upstream or downstream or both?

Local Content Policy as being perceived right now goes beyond that. There are indeed enabling environments that determine the feasibility of local content policies. This article therefore seeks to underscore these factors and to determine whether or not provisions for the policy would provide optimum satisfaction to Ghanaians.

The Existing Situation

“We have to create conditions to enable more Angolan citizens to play a part in the economy. There will not be a consolidated society in Angola if the minority can't take part in it. Until now been leaning towards foreign domination. It's necessary that little by little this trend be

reversed”- Manuel Vincente, CEO of Sonangol, 2009.

Definitely, the significance of Local Content Policy cannot be written off. It is widely known that for a comprehensive and practical national content policy, there should be a clear understanding of national constraints and potentials as well as existing national capacity. There are basically, strategic concerns involved in successfully implementing the policy that provide grounds for effective local participation and benefits. It goes without saying that the government will need a sound financial foothold, improved technology and quality expertise in the sector for full benefits.

The national constraints of the country are clearly evident in the areas of finance, human resource capacity and requisite enhanced technology. Therefore, decisions over this type of policy require an accurate assessment of the needs of the industry and the country's capacity.

Among the major policy issues that need strict attention is linked to the qualification of local Ghanaian industries in terms of technology, industrial capacity and professionals. Another aspect is the regulation of the oil and gas sector, and the significant role of small and medium scale enterprises (SMEs). The most dangerous part is the accepted standards involved in procurement processes. The risk is that the distortion to the procurement process created by local content requirements could lead to undue delays and cost increases, and possible needless tensions between the International Oil Companies and National Oil Companies.

In no doubt, badly enforced local content policy may impede economic growth. It results in uncontrollable corruption and undermines other economic activities in the non-oil sector. It is in view of the above gaps in local content policies that Brazil has instigated an extensive qualification programmes to strengthen the competitiveness, the capabilities and the capacity of the Brazilian petroleum industry and improve the business climate. Brazil's National Petroleum Agency (ANP) which is the government's regulatory body has expanded its rules for 'goods of national production' and has set minimum requirements for local content in the different stages of the development of a project, depending on where the project is located. There is less local content in the deep water projects, far more in the onshore activities.

Also, countries including Norway and UK have neutral organizations, Achilles and Offshore Supplies Office respectively that facilitate efficacies in the supply chain management and make available objective information to the oil companies on potential and actual capabilities of suppliers and contractors. These organizations also provide suppliers with up-to-date information on potential contracts and purchasers in the markets.

What is best for Ghana?

It is imperative that Ghana learn from countries that have made strides in the implementation of

the Local Content Policy. How can Ghana achieve the set target of full local participation in all aspects of the oil and gas value chain of at least 80% by 2020 as stated by Dr. Oteng Agyei in an exclusive interview with Petroleum Africa?

Implementing Local Content Policy does not spontaneously maximize benefits in the oil and gas sector. The bottom-line of every comprehensive local content policy is transparency and openness. The criteria for award of contracts, basis for the award, contract costs and itemization of activities must be published for the purpose comprehensive accountability. This will define the procurement process devoid of any bias and unnecessary accusations and tensions. This is only possible when the government pays the needed attention to the status of the country in extending and implementing the Extractive Industries Transparency Initiative (EITI) in the oil and gas sector. EITI is the only platform that will bring on board diverse civil society organizations and experts in the extractive industries to chart the right path to oil-led economy.

The government should stimulate the development of small and medium scale enterprises (SMEs). Though the developments of SMEs are seemingly a mirage in the country, the country cannot afford to lose focus this time. This is very crucial if Ghana want to be a technology hub in the West Africa region and possibly the world at large. The secret behind the success story of Brazil is that the country has used the SME sector as an economic force of their economy. Apart from the fact that SME provides 21% of GDP, the sector employs more than 14 million entrepreneurs. Again, Petrobras has set up two funds to help SMEs. Ghana ought to follow suit. The development of SMEs should remain a priority in our policy discourse in the extractive industries.

However, one issue that needs critical look is with the body that would manage the disbursement of funds from the Oil and Gas Business development and Local Content Fund. The fund which would primarily be used for education, training, and research and development in oil and gas is to be managed by the Ministry of Energy. The effectiveness of the administration of the fund is very uncertain though we expect good results. Ideally, it would serve the country good if an independent neutral body is charged to see the use of funds from the Oil and Gas Business development and Local Content Fund as it is existing in Norway and UK. Nigeria as well has accepted the need for an independent body to register and pre-qualify the companies to avoid some of the pitfalls often associated with local content policies.

There is no way local content strategies would make impact in the lives of Ghanaians unless the poor infrastructure base of the country is improved. Massive development of infrastructure would go a long way to help local entrepreneurs compete favourably in the supply chain services in nascent oil sector.

It is also important to say that the Oil and Gas Business development and Local Content Fund,

the Petroleum Act and other regulatory and legal frameworks must efficiently be harmonized to ensure consistency in the interplay of supply chain activities by local and international companies in the oil and gas sector.

With the available conditions now, there is no gainsaying the fact that Ghanaians would best perform in the downstream phase. The upstream would later become the country's focus when the economy has grown from low-level technology to that of complex technology. Little by little, the country would get there only if we are not myopic and selfish in the setting visions and objectives to improve ordinary lives of Ghanaians using oil revenues. Let us decipher the right approach that would translate oil revenue into growth and poverty reduction.

Conclusion

Certainly, local companies are celebrating and awaiting the implementation of the Local Content Policy. But Ghana should not forget that qualifications and technological aptitude are major tenets of local content strategies. As much as the country tries to ensure full local participation, we should not as well disregard the indispensable role of foreign direct investments (FDIs). The economy still needs investors.

The country must rid itself of centeredness, partisan politics that may eat into the awards of contracts in oil blocks and in supply services chain.

The country must try to move the co-operation and commitment of international oil companies operating in the Jubilee field along with the vision ahead. It is also an undeniable fact that institutional structures and mechanisms must be used to drive the actualization of the local content programme in a fair and sustainable manner for all stakeholders of the oil and gas sector. As said by Mr. Willy H. Olsen during his lecture at the Ghana Summit: Oil, Gas and Frontier Province, "Impacts must be measurable in terms of employment, training, infrastructure, wellbeing of host communities and not seen as percentage only". Ghana is therefore charged in this regard. We must maximize the Local Content Policy in the oil and gas sector before the benefits that would accrue to the economy.

The author, Stephen Yeboah is at the Department of Planning, KNUST and the National Co-ordinator for Osagyefo Network for Rural Development [email: stephenyeboah110@yahoo.com]