



LOCAL CONTENT & LOCAL PARTICIPATION POLICY & FRAMEWORK

FOR THE
REPUBLIC OF
TRINIDAD AND TOBAGO
ENERGY SECTOR

OCTOBER 7TH, 2004

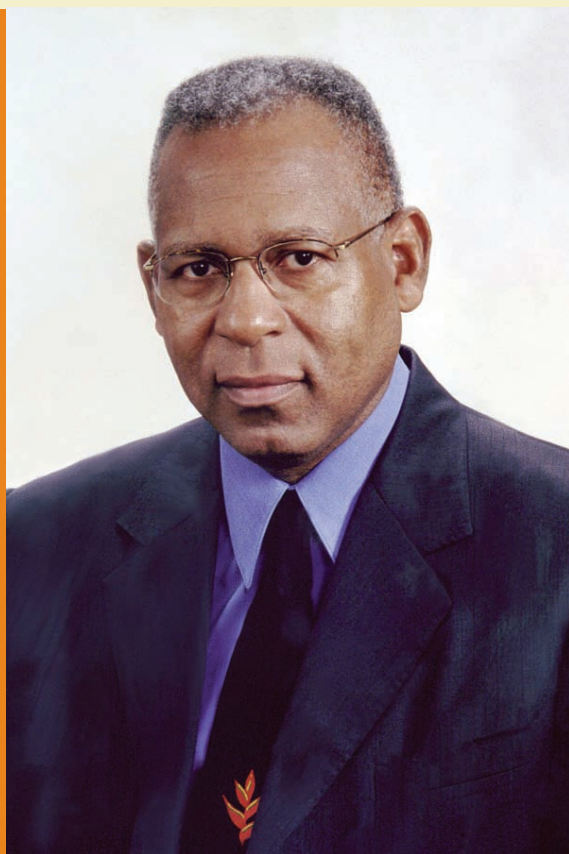
**THE REPUBLIC OF TRINIDAD AND TOBAGO
ENERGY SECTOR**

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FOREWORD



Honourable Patrick Manning
Prime Minister
of the Republic of Trinidad and Tobago

In accordance with the classic definition, sustainability is the ability to meet today's needs without diminishing the capacity of future generations to meet theirs. In the Trinidad and Tobago context, economic sustainability has been the major driver for the development of a local content and local participation policy for the energy sector.

Sustainability has to be at the heart of policy-making for the petroleum sector - a non labour-intensive industry, dependent on finite resources. The expansion of recoverable reserves, the efficient and careful management of production and the minimization of environmental impacts are principal considerations from the Government's perspective for the sustainable development of the country.

Traditionally, the energy sector has been the major contributor to the national economic well being. The surpluses derived from the sector have been targeted for the development of other sectors and the diversification of the country's economic base. However, there are other ways that the sector can generate value and strengthen the economy. Education, training, experience and business opportunities developed at the operating level of the energy sector can feed into the development of the nation as a whole. This process would lead to the development of human capital, promotion of the local private sector and assist in the diversification of the economy away from petroleum.

We have considered how Government's policies and the companies' initiatives could encourage national capacity building through education and training; and through increasing local content and participation by employment of nationals, contracting local companies and utilising local capital - while maintaining their commercial integrity.

Education is key to building national and industry capacity. All companies operating in the country can play an important role in this through training programmes. Their investment in capacity building will be best harnessed when the Government has a strong vision to drive the whole country toward success. This goal has been clearly articulated in the country's Vision 2020 framework. The Government has supported this effort by investing in education at all levels, including the setting up of the University of Trinidad and Tobago.

The emphasis in formulating the local content and local participation policy for the energy sector has been on knowing the strengths and limitations of the petroleum sector in building national capacity. This emphasis has been aligned to a clear strategy to develop capacity transferable to the non-petroleum sector, where more use can be made of private capital and thereby strengthen the country's international competitiveness. A key question is how to capture value for the long-term at the front end stage? Initial investments in projects are huge so it is important to consider the benefits of spending more on local content in the initial stages.

Similarly, it is healthy to have a regional focus where private capital and participation of local companies are involved. We believe that the best way to ensure success, and quickly, is to do it "in country" first, and doing it with locals, will naturally follow. The question to be asked is not what we can do with existing local capability but rather, what we can build with existing and projected demand, so as to enhance local capability and allow us to capture more value in the future? Where there is no local

capacity, the multinational companies will be encouraged to share expertise to help set up/train/build alliances with smaller private local companies until they are able to compete for contracts (locally & globally).

The road will not be an easy one, given the cyclical nature of the energy business; e.g. specialist contractors will be needed for certain time-limited operations. So, if the multinationals help establish local companies to perform these tasks, their services will not be continuously required. We have, therefore, to be innovative in the way we:-

- Identify and select areas for focus of local capability development;
- Identify current capability and gaps
 - Set Targets for local capability and capacity
 - Build capability
 - strengthen or build institutions
 - set and maintain high standards
 - remain dynamic (monitor change and improve);
- Regulate local content and knowledge and technology transfer - history tells us that it does not work if it is an option;
- Pick as partners companies who support our strategy and will help deliver it; and
- Measure performance; report on it; learn from it; build on it.

For this local content and participation policy to succeed, it needs a high level champion in Government. As Prime Minister, I am raising my hand to be that individual. We must think strategically, while acting practically, recognizing capability development as an investment.

CONTEXT



Blessed as we are with abundant resources of oil and gas, the Government of Trinidad and Tobago recognises that our country's development is enabled by a wasting asset which belongs to all our citizens and which, once removed, is not replenished. The Government, as caretaker and manager of these assets, has an obligation to ensure that the exploitation of these resources is conducted in a manner that generates maximum benefit to all the people of the Republic of Trinidad and Tobago.

In generating value from these resources, the Government has at its disposal a mixture of fiscal and non-fiscal measures that it can apply to the activities involved in exploration, production, conversion and disposal of these resources.

This policy addresses measures related to the activities conducted by individuals and enterprises engaged in the energy sector and operating within and outside of Trinidad and Tobago.

The energy business is characterised as requiring high levels of skills, know-how, technology and capital. Trinidad and Tobago, with our limited

human and capital resources, will continue to engage foreign individuals, international businesses and organisations which have these capabilities, to explore, exploit and commercialize our natural resources.

In seeking to achieve developed nation status, Trinidad and Tobago has to move to a position of increased GNP vs. GDP and of producing higher value-added goods and services for export. The energy sector provides excellent opportunities, however, these are only achieved through increased local participation in the value chain. Current levels of local value capture are in the 10% range and increasing this will have a significant impact on the national economy.

The issues of local content and participation have recently gained prominence internationally and are a major feature of policy initiatives in both developed and developing countries. The huge value they can bring to an oil and gas producing community provides compelling reasons for the development and enactment of a local content and participation policy in Trinidad and Tobago.



INTENT

It is the intention of the Government and people of Trinidad and Tobago that the country will maximize the level of participation of its national people, enterprises, technology and capital through the development and increasing use of locally owned businesses, local financing and human capabilities in the conduct of all activities connected with the energy sector, along its entire value chain, at home and abroad.

As the nation rapidly grows its businesses to help the international community meet their energy needs, we shall use this opportunity to leverage the capabilities of international companies in our midst to build our own businesses, people, technology and capital markets. As we grow and deplete our natural resources, we are simultaneously removing our

opportunities to capture future wealth. Therefore, it is incumbent on us to ensure that we make the most of this opportunity to create the capability to generate wealth in the future.

This policy framework seeks to identify the guiding principles that will determine:-

- the major mechanisms for local content, participation and capability development;
- where, how and by whom these will be delivered;
- the performance measurement, assurance and reporting processes to be used; and
- some key areas for priority focus.



VISION & POLICY FRAMEWORK



To achieve the goal of maximising value for the country from its assets, the Government and people of Trinidad and Tobago shall participate in the business of oil and gas and engage external participants in a manner that captures value on two fronts:-

1. Fiscal measures - through the use of

- i. taxation and royalty policies and
- ii. government expenditure to capture value from the sector and to extend it by building local capabilities that support the sector's growth.

2. Non-Fiscal measures - through

- i. Local Participation - maximising the depth and breadth of local ownership, control and financing, in order to increase local value-capture from all parts of the value chain created from the resource, including those activities in which nationals, local business and capital are not currently engaged, at home and abroad;
- ii. Local Content - maximising the level of usage of local goods and services, people, businesses and financing.
- iii. Local Capability Development - maximising the impact of the ongoing sector activities, through the transfer of technology and know-how to
 - a) enhance, deepen and broaden

the capability and international competitiveness of our people and businesses within the sector;

b) create and enhance capabilities that are transferable to other sectors within Trinidad and Tobago; and

c) create and support cluster developments with other industries that have a natural synergy with the energy sector and which may have the capacity to diversify and/or sustain the economy after the resource is depleted.

“Local Content and Participation” - collectively referred to as “local value-added” - will be defined in terms of ownership, control and financing by citizens of Trinidad and Tobago.

While, typically, the themes of “local content and participation” have focussed primarily on the aspects of “in country” activity, Trinidad and Tobago recognises that the energy sector has tremendous potential to develop local capabilities that are essential for the capture of further opportunities outside of the country. This potential is not achieved unless there are specific strategies to do so.

This policy framework addresses local content and local participation in a manner that:-

- will maximise utilisation and development of Trinidad and Tobago nationals, businesses



VISION & POLICY FRAMEWORK

- owned by nationals and the domestic capital market in every aspect of the activities conducted in the sector.
- recognises the impact of other mechanisms for maximising local value-added in the short term, while building capability for increased value capture now and in the future.
- seeks to ensure that Trinidad and Tobago does not overlook opportunities provided by activities in and, in support, of the sector so that:-
 - (i) supporting energy sector policies and strategies on human and enterprise development will be consistent with this policy framework,
 - (ii) all Government and State-agencies, regulations, strategies and contracts are aligned with these policies, and
 - (iii) all policies will be rigorously applied to ongoing, proposed and future individual projects, operations and suppliers of goods and services in the energy sector.



LOCAL CONTENT AND PARTICIPATION POLICY STATEMENT



In managing the energy resources of Trinidad and Tobago, the Government will take every opportunity to maximise the local value-added and value retention from the activities that will be conducted in all parts of the sector, where our resources are involved, whether or not those activities occur inside Trinidad and Tobago.

The Government shall consistently define local content in terms of the level of ownership, control and financing by citizens of Trinidad and Tobago, in conformity with internationally accepted norms and the key tenets of international conventions, such as General Agreement on Trade and Services (GATS).

In order to achieve the goal of maximum local content and participation, the Government shall ensure that all participants in the energy sector are selected, engaged and managed in a manner that:

1. Identifies WHERE local value-added opportunity capture exists from the sector by:

- Selecting, from time to time, specific goods or services for focusing the local content, participation and supply capability development efforts;

2. Determines HOW to enable delivery of maximum local value-added by:

- managing the programme of activities in the sector as a portfolio, so that project pace and scheduling enable the maximum opportunity for development of local capabilities and their sustainable utilisation;
- targeting local capability development by

increasing the amount, depth and breadth of “in country” activities, so as to enable fuller participation of nationals and enterprises in the value chain;

- giving preference, firstly, to locally owned, controlled and financed enterprises, then to those that demonstrate a clear culture, commitment and capacity for maximising local value-added, participation and capability development, consistent with the country's aspirations and vision;
- focusing on improving local skills, business know-how, technology, financing, capital market development, and wealth capture and distribution; know-how, technology, financing, capital market development, and wealth capture and distribution;

3. Ensures DELIVERY of maximum local value-added by:

- aggressively promoting and rigorously applying this policy wherever State controlled resources are involved
- facilitating the development of local capability to enable local value-added;
- removing barriers for local participation;
- setting targets of local content and participation that will be assigned to individual projects, operations and/or operators and supporting these targets with appropriate contract terms;
- measuring and reporting on the performance of operators in the sector;
- periodically comparing the local content and participation performance amongst operators, between projects and



LOCAL CONTENT AND PARTICIPATION POLICY STATEMENT

operations and with other countries, to establish benchmarks, targets and opportunities for improvement and for the transfer of best practices.

The Permanent Local Content Committee (PLCC) will be responsible for:

- updating the local content and participation policy, as required;
- developing specific subsidiary policies and strategies, to ensure the transfer of technology and know-how to improve local skills, businesses and the capital market;
- ensuring compliance with these policies; and
- reporting to the Minister of Energy and Energy Industries and the Cabinet, as appropriate.



LOCAL CONTENT POLICY IMPLEMENTATION



The traditional approach of *giving preference to local suppliers if the cost, quality and timeliness of delivery of their goods and/or services are of equal quality to the international competitor* has not helped us build local capability, as only those who are already globally competitive will succeed. There is no opportunity to become competitive if the local operator is not given a chance to do, learn and improve. For this reason "local capability development" will be an important part of the implementation strategy.

Recognising that not all projects, activities, goods or services can be addressed immediately nor can they all be delivered or sustained locally, the Permanent Local Content Committee will initially direct efforts to maximise local content and participation in the following way and in the following key areas:-

1) Defining Local Content and Participation in terms of the level of:

- Local ownership, control and decision-making;
- Local financing (preferential access to local finance – not just equal access)

2) Requiring preferential treatment of local suppliers by:

- ensuring that they are given preference and assurances from the principal operator, which is not deferred to primary or other contractors.

These assurances will include, access, treatment and re-imburement for goods and services actually provided;

- addressing barriers that currently prevent this from happening.

3) People development in key areas that allow locals to take more value-added, analytical and decision making roles and to ensure that existing regulations and processes, like the work permits, are aligned to ensure compliance with the policies and strategies:

- High value-added skills
- Technical
- General management
- Design engineering;
- Project management
- Seismic processing
- Human resource development
- Business Strategic skills
- Leadership
- Business development
- Commercial
- Analytical
- Negotiating
- Strategy development
- Trading

4) Technology and business know-how that have high value, consistent and sustained demand and which might be transferable to other sectors of the economy. Areas for immediate focus will include:-



LOCAL CONTENT POLICY IMPLEMENTATION

- Fabrication;
 - IT support, including seismic data management and processing support;
 - Operations and maintenance support;
 - Maritime Services
 - Business support services, including accounting, HR services and consulting;
 - Financing;
 - Trading.
- 5) Creating and maintaining databases of:
- Projects and operations work programmes, including their needs for the provision of goods and services and their scheduling;
 - Local suppliers of goods and services;
 - People development programmes and initiatives of the operators and their international contractors, including work permits awarded and the related commitments;
 - Business development programmes and initiatives;
- The progress of activities of "in country" operators, State-owned companies and agencies and their contractors, including their:-
 - (i) Local content and participation policies, strategies and initiatives;
 - (ii) Targets, benchmarks and performance metrics
 - Appropriate legislation, regulations and contracts.

In recognition of the importance of local value-added to national development, the Government of the Republic of Trinidad and Tobago will ensure that the Permanent Local Content Committee has the necessary resources (human, financial and technological) to properly deliver on its mandate.



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