



Expatriates drilling oil in Bunyoro, Uganda should maximise local content inclusion to spur economic growth and help the country realise middle income status

The relevance of local content in the oil and gas sector

LOCAL CONTENT

What is this local content and why is it relevant? In some quarters, local content has been defined as the development of local skills, transfer of technology and the use of local manpower and manufacturing. In other words, local content is building a local work force and supplier database that is skilled and competitive.

The Nigerian Oil and Gas Development Law 2010 defines local content as the quantum of composite value added to or created in Nigeria, through utilisation of Nigerian resources and services in the petroleum industry, resulting in the development of indigenous capability without compromising quality, health, safety and environment standards.

It is, therefore, safe to assume that local content is an avenue by which local goods and services are utilized to a maximum within a given industry. In the case of the Ugandan Oil and Gas sector, it would imply the maximum employment of Ugandan goods and Ugandan enterprise during the production phase.

There has been a challenge on the definition of what a 'local' entity or company is exactly. For instance, a business entity can be located domestically, but be foreign owned, hiring expatriate staff and using imported machinery for its production. The key component is that jobs and incomes are generated and retained locally for the benefit of the host country or community.

As Uganda enters the oil development and production phase, it is important that we maximise local content inclusion.



Dennis Kamurasi

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estimated that about \$5b was spent by the International Oil companies in Uganda. We are told that 26% of this spend was retained in-country and 74% left our economy. We are now faced with a scenario where in the 5-year period of development and production, there will be spend in excess of \$20b. This is more than six times the money spent in the exploration phase in almost half the time. It will be unforgivable if at least 50% of this spend is not kept in-country.

It is noteworthy to look at some of the more successful local content stories around the world. Let us consider Norway. The first off shore field in Norway came online in 1971. At the time, practically all activities related to up and mid-stream were run by foreign companies. In 1972, the Norwegian government by decree formed Statoil, the Norwegian national oil company as a limited liability company.

Statoil was granted a 50% share in each production license. Today, Statoil is one of the largest energy companies in the world operating in 36 countries, with internationally recognised expertise. In offshore petroleum activities, Norwegian local content share in new petroleum fields is up to 60% and over 80% for maintenance and operations. And Norway is one of the wealthiest nations in Europe.

In Nigeria, the Oloibiri field went online in 1957. By the mid-nineties, Nigeria was the fifth largest producer of crude oil and the only country from sub-Saharan Africa having membership on OPEC.

However, by the year 2000, according to a UNDP report of 2009, the local content share in oil and gas activities across the entire value chain was a paltry 5% and

Nigeria, in spite of its huge hydrocarbon reserves, was still ranked among the poor countries in the world. In 2010, the Nigerian Oil and Gas industry content Development Act was passed. This law sought to address local content gaps and increase local participation in the sector to a minimum of 70%. By 2013, Nigeria had become the largest economy in Africa ahead of South Africa and Egypt.

Other examples of success using local content as a key driver in the oil and gas sector exist in Brazil, Canada, Trinidad & Tobago and Russia. In Uganda, Local content regulations were enacted in 2016. These regulations lay out the guidelines for local content inclusion for all companies intending to participate in the sector. They stipulate that companies within the sector must have 70% or more Ugandan workforce. They go further to ring fence several activities that must 100% be carried out by Ugandans or Ugandan business entities.

The regulations are in line with the National Content Policy 2008 that seeks to maximise indigenous participation in the sector. I encourage you to read these regulations which are public record. This is a good start for us as a country.

Local content should not be limited to just the extractive sector. It should extend to manufacturing, agriculture and even trade. Local content, as a vehicle, if used effectively, can spur economic growth and quickly help us as a country realise our middle income status dream.

The writer is the vice chairman Association of Uganda Oil & Gas service providers