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Local Content in Oil & Gas Industry in Brazil



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#1

LOCAL CONTENT POLICY

Local Content in Brazil

Definition

Local content consists in the proportion between (i) the expenditures with national goods and services for the exploration's and production development's operations within E&P contracts and (ii) the total expenditure for this purpose

Goals

- Appropriation of long term oil income and move away from commodity dependency
- Stimulate demand to increase participation of local suppliers in a competitive basis
- Indirectly stimulate technological development and labor generation



The role of ANP

Institutional structure



Execution of the policy

- CNPE establishes LC requirements for each ANP bidding round
- ANP inserts LC clauses within the E&P contracts
- ANP regulates, control and enforce LC clauses

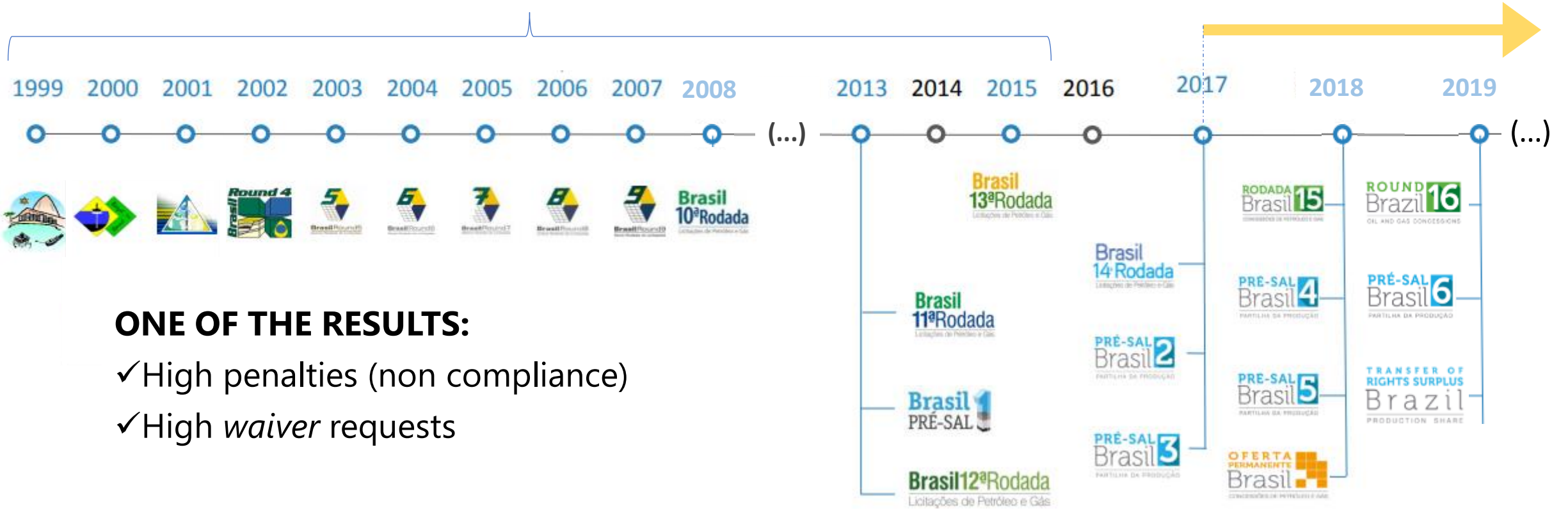
#2

LOCAL CONTENT IN E&P CONTRACTS

LC percentage and structure: Timeline

- ✓ Local content (min/max) as a Bid factor - incentive for high offers
- ✓ Very strict LC structure: Up to 90 specific components

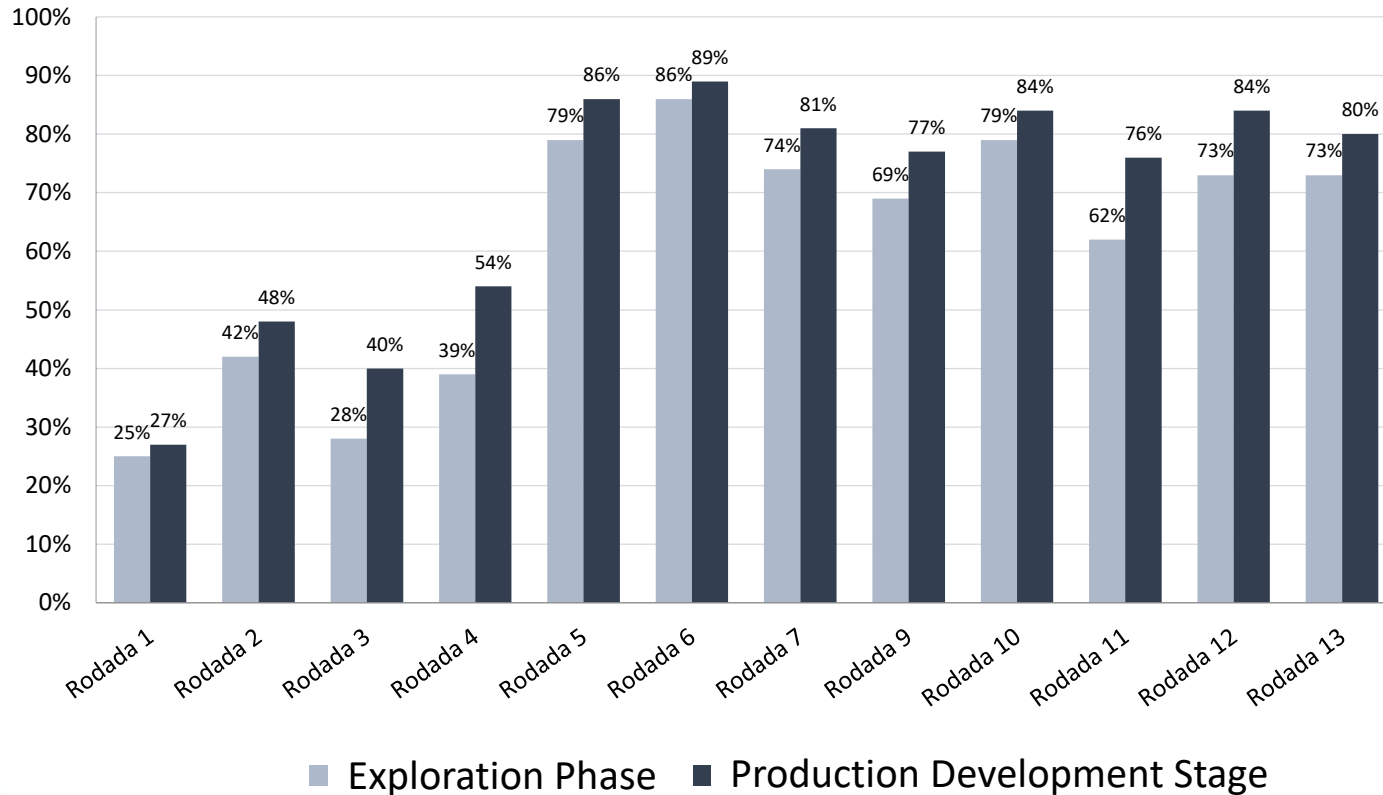
New LC policy: softer and more flexible



LC percentage and structure: History

Former LC policy:

High offers: average LC per bidding round



New LC policy:

Since 14th bidding round (2017)

Exploration Phase	Onshore:	50%
	Offshore:	18%

Production Development Stage	On:	50%	
	Off:	Wells:	25%
		Subsea:	40%
		Production Units:	25%

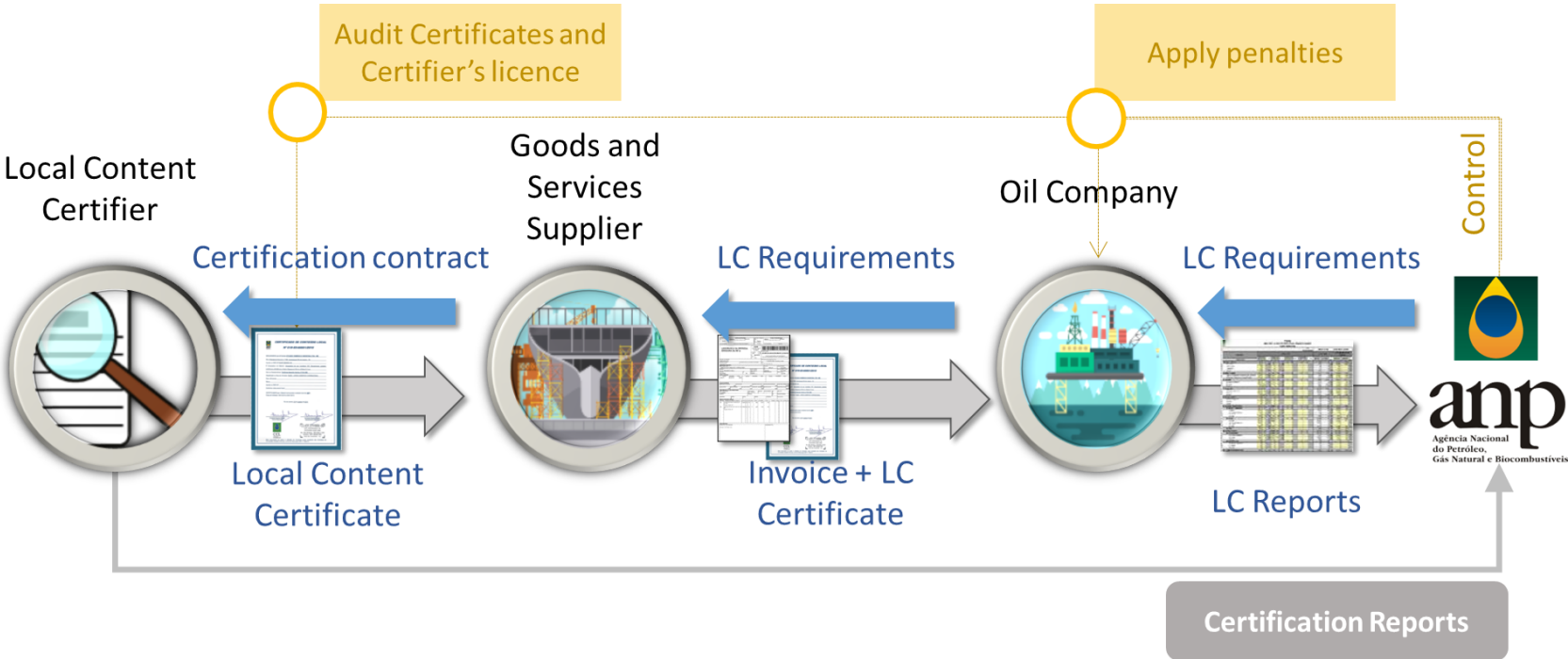


LC Measurement method: local supplier vs inputs

Local content as expenditures in national goods and services

- ✓ National supplier is not a requirement for local content, what matters is the fabrication process;
- ✓ Certifying the % of local content of each goods and services supplied: according to nationality of components, inputs and labor, regardless supplier's localization or ownership;

Certification structure



#3

LESSONS LEARNED

Finding the balance

Costs

Benefits



- E&P Investment attractiveness
- Potential delays in E&P projects
- Compliance costs
- May reduce suppliers competitiveness

- Long term oil income appropriation
- Industrial development
- Technology and labor

Successful Cases

Shipyards and FPSO modules building and integration



Subsea



Lessons learned

Collaboration with players and transparency

Monitor since the beginning

- Monitor national suppliers' delivery capacity and bidding rounds results; establish policy goals and measure results, mainly by establishing indicators

Share results and coordinate with related policies

- Synergy with other industrial policies

Flexible LC requirement's structure

- E&P long term investment maturation requires flexibility due to uncertainty

Balance incentive and penalties

The challenge is...

Costs

Benefits





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