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In-depth Synopsis of Local Content Literature

4.1 Background of Local Content Policies

The first notable work of local content was by an American economist Gene M. Grossman published in 1981. He evaluated the impact of local content protection measures on the market structures and the production of intermediate goods.¹ Grossman believed that a given percentage of the products made by the local embodied in the final product. Grossman’s analysis of local content assumed that the intermediate and final goods are produced in a perfectly competitive market.² However, Schott and Hufbauer stated that “local content policies create a production distortion and diminish incentives for technical efficiency, though local content policies can be the second-best policy instrument because they avoid the consumption distortion created by a tariff”³.

¹Grossman, G.M., 1981. The Theory of Domestic Content Protection and Content Preference. The Quarterly Journal of Economics, 96(4), pp. 583–603.
²Ibid.
³Hufbauer, G.C., Schott, J.J. and Cimino-Isaacs, C., 2013. Local Content Requirements: A Global Problem (Vol. 102). Columbia University Press.
Several industries did implement these protectionist measures. The Canadian-American Automotive agreement in 1965, had protectionist content elements used in Canada to protect the automotive parts industry from US competition. Other countries, such as New Zealand and Australia, adopted content protection schemes. Other notable economists such as Findlay and Welisz held that this type of protection is popular in industries where the final product are assembled from different parts, which may be imported or manufactured domestically. This has been experienced in Australia for automobiles, tractors, industrial machinery, petrochemicals, and various consumer nondurables. However, in developing countries, domestic content rules are weak for newly established industries they can’t locally produce any components or parts that are needed in the local industries. Thus the protection needs to gradually be tightened to promote local production of the given parts and components. Before Grossman, theoretical analysts such as Wonnacott and Wonnacott, Corden. They explained that content protection is defined in physical terms, the assumption is purely based on competitive market structure, and intermediates are used only in proportions fixed to output.

This entails that content protection will not be efficient in weak economies. Furthermore, the service industry is not protected in this sense since content protection is only defined in physical terms. Local content policies have been applied in different countries, different industries and in different contexts to meet the different economic and social-political requirements needed by the policymaker. This chapter provides a full literature review on local content policies and other supervening factors that affect the adoption and implementation of local content policies as well as the metrics used to assess the effectiveness of these policies. The literature review further searches for the appropriate

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4 Lloyd, P.J., 1973. *Non-tariff Distortions of Australian Trade*. Canberra: Australian National University Press.
5 Welisz, S. and Findlay, R., 1988. The State and the Invisible Hand. *The World Bank Research Observer*, 3(1), pp. 59–80.
6 Welisz, S. and Findlay, R., 1988. The State and the Invisible Hand. *The World Bank Research Observer*, 3(1), pp. 59–80.
7 Corden, W.M., 1985. *Protection, Growth and Trade: Essays in International Economics*. Oxford: Blackwell.
definition of local content that is not subjected to a particular jurisdiction. The chapter also provides a critical review of the other theoretical constructs other than energy justice such as regionalism and localism and their application to local content policies. The chapter portrays local content policies in an interdisciplinary perspective other than just a policy that is limited to economic and political connotations. It also entails the different objectives of local content policies across different jurisdictions. The chapter also provides the alternatives of local content as well as the application of local content policies in the oil and gas sector. The chapter elaborates on linkages and factors that affect the adoption of linkages in different economies. Lastly, an assessment is made on how energy justice identifies the gap in local content implementation.

4.2 Searching for a Definition of LCP

Cimino, Huffbauer and Schott define local content policies as a “deliberate preference” or a “first consideration” to the country’s nationals in matters of employment and training and the procurement of goods and services.\(^8\) Several countries have adopted the definition of local content policy in ways similar to Cimino, Huffbauer and Schott’s definition of “deliberate preference” or a “first consideration”. The form of placing a deliberate preference has been mostly adopted by governments, such as Nigeria, Ghana Angola and Tanzania. In Norway, local content has no definition; the policymakers did not limit the application of the policy through a specific definition. In Brazil local content is defined as the proportion between the value of the goods produced and services rendered in Brazil per the terms of the Model Contract 2015 and the total value of the goods used and services provided for this purpose.\(^9\)

The Nigerian government, the Nigerian National Petroleum Corporation (NNPC) defines local content as “the quantum composite value-added or created in the Nigerian economy through the utilization of

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\(^8\)Cimino, Cathleen, Hufbauer, Gary Clyde and Schott, Jeffrey J., A Proposed Code to Discipline Local Content Requirements. Peterson Institute for International Economics Policy Brief No PB14–6, February 2014, p. 1.

\(^9\)Model Contract 2015, Art. 1.3.15.
Nigerian human and material resources for the provision of goods and services to the petroleum industry”. 10 Ghana’s Petroleum (Local Content and Local Participation) Regulations, 2013 defines local content as “the quantum or percentage of locally produced materials, personnel, financing, goods and services rendered in the petroleum industry value chain and which can be measured in monetary terms”. 11 The two definitions of Ghana and Nigeria emphasise the utilising local companies, local people as well as having an input of the local product (such as raw materials) in the creation of the final product. The definition also advocates for backward and forward linkages. This is because the definitions entail the local participation in the whole energy value chain from consumption to waste management. The two definitions have adopted the so-called national content policy approach. This approach of local content policies applies to the whole nation. It does not place special consideration on the host communities that face the ramifications of the energy industry within their vicinity.

This has led to NYMBISM (Not in my backyard syndrome), of these oil and gas. Hence the national content approach falls short in distributive justice. Since most of the benefits are fundamentally not shared by the host community but rather the negative consequences of having such oil and gas. This has been seen in Niger Delta where oil spills, environmental pollution have been prevalent, unlike the non-oil-rich communities. Tanzania in its Local Content Policy for the Oil and Gas Industry drafted in 2014. Defines local content as “the added value brought to the country in the activities of the oil and gas industry in the United Republic of Tanzania through the participation and development of local Tanzanians and local businesses through national labour, technology, goods, services, capital and research capability”. 12 Tanzania further defines local content as the added value brought to a host nation

10Nwapi, C., 2015. Defining the “Local” in Local Content Requirements in the Oil and Gas and Mining Sectors in Developing Countries. Law and Development Review, 8(1), pp. 187–216.
11Petroleum (Local Content and Local Participation) Regulations, 2013, LI 2204, Reg 49, available at: http://www.reportingoilandgas.org/wp-content/uploads/PETROLEUMLOCAL-CONTENT-AND-LOCAL-PARTICIPATION-REGULATIONS2013.pdf.
12United Republic of Tanzania, Local Content Policy (2014).
(and regional and host energy resource communities in that country) through the activities of the oil and gas industry”.13

The terms used such as “regional and local areas” suggests that there is specific recognition given to the host communities of these oil and gas within the country. The emphasis placed by the policy on energy resource host communities is coherent to justice as recognition. Commonly, oil and gas are found in remote areas where these areas are isolated before the discoveries of oil and gas, such as the gas-rich Mtwara region in Tanzania, the oil-rich Turkana county of Kenya and the oil-rich Albertine region of Uganda. The discoveries create a gold rush that can only be addressed once there are adoption and implementation of a community content approach.

The mention of host communities triggers what policy analyst Micheal Warner has argued for, a phenomenon known as “community content”.14 Community content holds that the host community must be involved (given first preference) in the energy lifecycle. Thus there must be a strategic deployment of local participation and local capability development opportunities in the energy industry. Warner states that “community content relates to realising a competitive advantage for the oil company in the eyes of both the local population and the country’s guardians of economic policy”.15 In the energy, justice community content is regarded as restorative justice. Warner mentions that community content programme is a “merit good” that targets those negatively impaired.

The oil and gas host communities are usually the communities that suffer the most due to the extractive industry. Though the foundations of restorative justice are found in criminal justice, in energy law, the principles of restorative justice aim to repair the harm done to the local

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13Ibid.

14Warner, M., 2007. Community Content: The Interface of Community Investment Programmes with Local Content Practices in the Oil and Gas Development Sector. Overseas Development Institute (ODI) Briefing Note (9).

15Warner, M., 2007. Community Content: The Interface of Community Investment Programmes with Local Content Practices in the Oil and Gas Development Sector. Overseas Development Institute (ODI) Briefing Note (9).
victims of the oil and gas. That is the similarity between community content and energy justice; they both aim to repair the damage done to the host community by the mere presence of the oil and gas within their vicinity. Both community and national content policies exclude foreigners, while the community content excludes foreigners and non-community members. The national content policy excludes foreigners from different nationals. However, Warner believes that community content should be distinct from the national content policy. Community content cannot be materialised as most host communities do not possess the capability. They are technologically incapable, with low capital, low industrial base, and poor infrastructure. There usually is insufficient technical skills to service the energy industry.

Nwapi thinks that community content and national content policy can be implemented at the same time; it is well understood that there will be no synergy with justice in recognition. Labelle states that justice in recognition “provides a cultural and political representation of groups with distinguishing features such as social, ethnic and gender differences; freedom distortion, devaluation, degradation and physical threats by other groups”. Hence to advocate for both community and national content in the same energy policy cannot be realised in host communities. This will have a detrimental supply of benefits and ills of the effects of oil and gas. As the host communities will suffer from the ills and the other non-host communities will mainly benefit from the resources.

Community and national content policies do not have a holistic approach towards local integration of the energy industry. A critical challenge for developing energy resource-rich countries is adopting and implementing local content policies that reflect their peculiar energy industry needs. The challenges that most oil and gas-rich countries face individually. A regional policy approach towards local content would be more efficient. Lalbahadur argues that a plausible way would be through

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16 Heffron, R.J. and McCauley, D., 2017. The Concept of Energy Justice Across the Disciplines. *Energy Policy*, 105, pp. 658–667.

17 LaBelle, M.C., 2017. In Pursuit of Energy Justice. *Energy Policy*, 107, pp. 615–620.
“a more strongly focused African strategy to promote the technology and skills insufficiency in Africa”.  

Furthermore, The Oxford Institute for Energy Studies argues that countries with small reserves (600 million barrels) but play a pivotal role in their region such as Kenya. They might have a more significant role if they acted as an energy industry regional hub in the East African region. This can be achieved by Kenya sharing its facilities with its neighbours and being more inclusive through a regional content policy since most developing countries cannot enter into the sophisticated high capital-intensive energy industry. They were using the comparative advantage to mobilise the capability that can enable the local energy industry participants to meet the demands of the energy industry. Nwapi further states that “while the idea behind LCPs is to promote local participation in FDI, restrictions to the employment of foreign labour may hurt a country’s economic growth by restricting the cross-border exchange of information and technology transfer and denying local professionals learning opportunities that the presence of foreign professionals provides”. Most of the above definitions do not show that local content provisions require government intervention for such as a policy to qualify as a local content policy. This is because corporate social responsibility may be undertaken as local content policies adopted by the multinational corporations. Since they may entail the same provisions such as training of the local labour force, technological transfer, entrepreneurship development programmes, etc. Conclusively on the search for a definition of what local content is and what it should entail. The book provides a definition that will be adopted throughout: Local content is defined as, the legislative, administrative and judicial government intervention in the oil and gas industry by ensuring local-preference in the provisions of goods and services as well as in the

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18Lalbahadur, Aditi, A Regional Approach to National Development Priorities in Mozambique? 20 March 2013, South African Institute of International Affairs, online: https://saiia.org.za/research/a-regional-approach-to-national-development-priorities-in-mozambique/.
19Patey, Luke, Kenya: An African Oil Upstart in Transition. Oxford Institute for Energy Studies Paper: WPM 53, p. 23, online: http://www.oxfordenergy.org/wpcms/wp-content/uploads/2014/10/WPM-53.pdf.
20Nwapi, C., 2015. Defining the “Local” in Local Content Requirements in the Oil and Gas and Mining Sectors in Developing Countries. Law and Development Review, 8(1), pp. 187–216.
authorization of oil and gas. Goods and services may include technology, R&D, labour, rig provisions, engineering and design services, wellheads, completion equipment, laboratory services, supply chain services, vehicle fleet management, recruiting, HR training and health, financial and risk services, construction services, site support consumables, lifting services, etc.

4.3 Critical Review of the Theoretical Literature on Local Content Policies

4.3.1 Localism Theory

Localism, as a theory places its focus on local empowerment. The principles are found in the role of local governments in promoting the efficient delivery of public goods and services. The fact that more efficiency is expected when there is local autonomy, this creates specificity when it comes to tailoring public policy and decision making, especially in energy policy concerns. Host communities affected by the presence of oil and gas need to take a consultative approach and have an inclusive mechanism of those affected by it the most. Local governments have direct access to the most impacted people of these oil and gas. The localism theory approach tends to make an opinion that national governments cannot well devise policies that are peculiar to the oil and gas host communities. At the local government level, however, there is a greater chance that the voices of local people can influence public decisions. In light of the local content policies through the localism theory emphases that the development of local content policies must be tailored under the

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21 Briffault, Richard, Localism and Regionalism, Columbia Law School Public Law and Legal Theory Working Paper No 1, 11 August 1999, p. 18.

22 Briffault, Richard, Localism and Regionalism, Columbia Law School Public Law and Legal Theory Working Paper No 1, 11 August 1999, p. 18.
local autonomy of the host communities that have their distinct values and identities as well as historical experiences.\textsuperscript{23}

Through localism, the development of a community content approach can also help solve the problems brought about by oil and gas in remote areas. Hence governments can efficiently address the host community’s challenges through achieving “political harmony”.\textsuperscript{24} Localism can be utilised to enhance the inclusiveness of the host communities like the Niger Delta, Turkana, MtwarA and Albertine region community. These energy host communities are usually excluded from the benefits of the oil and gas despite hosting them.

### 4.3.2 Regionalism Theory

Regionalism advocates that a region a fundamental economic, social, and ecological unit.\textsuperscript{25} Such unit as defined by the theory of regionalism entails that people may live in one area and have their dealings or business activities in another area. Furthermore, this would entail that there is movement between one or more municipalities to fulfil their socio-economic needs. The regionalism theory brings about regional integration that encourages there to be cooperation due to technical, functional purposes. The process will gradually spill-over within and across sectors. According to the neo-functionalists such as Haas argue that the spill-over effect would result in increased political integration, supra-nationality, and a re-definition of group identity around what is known as the regional unit.\textsuperscript{26}

Regionalism has been used as a tool to avail solutions that may not be found within the national boundaries of a given nation. The pooled efforts from different actors and stakeholders such as the state, market and civil society within a given geographical area to increase economic

\textsuperscript{23}Kessler, Anke S., Hansen, Nico A. and Lessmann, Christian, 2011. Interregional Redistribution and Mobility in Federations: A Positive Approach. \textit{Review of Economic Studies}, 78, p. 1345.

\textsuperscript{24}Warner, Michael, 2011. \textit{Local Content in Procurement: Creating Local Jobs and Competitive Domestic Industries in Supply Chains}. Sheffield, UK: Greenleaf Publishing.

\textsuperscript{25}Briffault, R., 2000. Localism and Regionalism. \textit{Buffalo Law Review}, 48, p. 1.

\textsuperscript{26}Haas, Ernst B., 1964. \textit{Beyond the Nation-State}. Stanford: Stanford University Press.
development of the region and improve the region’s socio-economic position.\textsuperscript{27} It can bolster a region’s position by creating novel mechanisms that would meet the demands and needs of the high capital-intensive energy industry within a given region. The regional content policy would not entail the creation of new regional institutions. But through the existing local stakeholders operating in the energy industry. The different collaborations between local stakeholders of the same region. Can create a national competitive advantage through innovation and the pooling of capacity to integrate the energy industry value chain. Porter states that “differences in national values, culture, economic structures, institutions and histories all contribute to competitiveness success”.\textsuperscript{28} Thus for local companies to compete and have an advantage against the multinational corporations in their energy industry, this can only be achieved through regionalist measures such as clustering, pooling of resources, free labour and capital movement, etc.

4.3.3 Local Content Policies as Interdisciplinary Perspectives

Local content policies are interdisciplinary. They are policies that are used in the legal, economic and political science disciplines in their knowledge exhaustion and application. A local content policy is found within the legal framework of a country. The provisions of these policies are found in primary and secondary legislation as well as in negotiated agreements.\textsuperscript{29} These agreements and legislation dictate how local energy participants will participate in the energy industry. These policies found their origin in economics as a domestic content measure. Whereby economists such as Grossman argued, “A content protection scheme requires that a given percentage of domestic value-added or

\textsuperscript{27}Hettne, B. and Söderbaum, F., 1998. The New Regionalism Approach. \textit{Politeia}, 17(3), pp. 6–21.

\textsuperscript{28}Grant, R.M., 1991. Porter’s ‘Competitive Advantage of Nations’: An Assessment. \textit{Strategic Management Journal}, 12(7), pp. 535–548.

\textsuperscript{29}Tordo, S., Warner, M., Manzano, O. and Anouti, Y., 2013. \textit{Local Content Policies in the Oil and Gas Sector}. The World Bank.
domestic components be embodied in a specified final product”.30 But later Grossman himself concluded that “the extent of protection or preference is not readily predictable, content protection and content preference may fail to attain the non-economic objectives of the policy-maker”.31 Local content policies are also found in the realm of political scientists. Ovadia has stated that local content policies are used by the elite to consolidate power in the development of a petro-state such as Angola and Nigeria.32 Hence local content policies are said to have a dual nature whereby one hand facilitates local integration in the energy value chain. But the legitimacy of the said integration inputting to question since it serves the bidding of the elite structure, especially in developing energy resource-rich countries.

4.3.4 Conclusion

The two competing theories of regionalism and localism both offer viable arguments in their application of local content policies. As much as the localism theory advocating for local empowerment, the regionalism theory brings about a more comprehensive approach that encompasses broader scales of production in the adoption and implementation of local content policies. Through regional integration alone is not a viable approach to meeting the demands of the oil and gas industry as well as ensure that the local communities gain economic development from their resources. Energy justice as a theory brings a resolutive approach since energy justice calls for recognition of all marginalised communities; this shows that the objectives of the localism theory will be met. Energy justice further entails that there should be a “just” application when adopting and implementing such policies to avoid any harm to be done to the different stakeholders. This aspect of energy justice accepts the use of regional integration as a tool, through regional integration all

30Grossman, G.M., 1981. The Theory of Domestic Content Protection and Content Preference. The Quarterly Journal of Economics, 96(4), pp. 583–603.
31Ibid.
32Ovadia, J.S., 2012. The Dual Nature of Local Content in Angola’s Oil and Gas Industry: Development vs. Elite Accumulation. Journal of Contemporary African Studies, 30(3), pp. 395–417.
other tenets of energy justice can be met to ensure the “just” adoption of local content policies thereof.

4.4 Objectives of Local Content Policies

Local content policies are implemented based on a given objective. The oil and gas industry is a very lucrative industry that creates expectations within the general population. Most governments intervene in the oil and gas industry to meet the demands of the general population such as creating jobs, creating new markets for the local goods and services, as well as bring about new technology. Since the book cannot summarise all provisions of numerous local content policies, the objectives of these policies have been pooled in these five objectives, namely the provisions for local employment, local goods and services, provisions for training of the local workforce, technology transfer and local business development.

4.4.1 Provision of Local Employment

A local content policy advocates for the hiring of local nationals. The employment provision can entail unskilled, skilled and semi-skilled labour. In Angola, a minimum of 70% of Angolan citizens must be hired in the workforce by headcount.33

4.4.2 Provision of Local Goods and Services

Local content policies advocate for local goods and services. These requirements are specifically targeting a minimum percentage for the provision of goods and services. Requirements include:

- A given proportion for the provision of goods and services.34

33Law 10/79 mandating Sonangol to Employ and Train Nationals.
34Decree 13/10 advocates for goods and services not requiring heavy capital investment and with a basic, medium or higher level of non-specialised know-how are reserved for Angolan companies. Foreign companies may take part in the initiative of Angolan companies.
• A given preferential treatment policy.\textsuperscript{35}
• The joint-venture requirement between foreign and local companies.

4.4.3 Provision for Training of Local Workforce

International oil companies are to train the local workforce. Developing the local workforce is essential for the inclusion of the local workforce in the oil and gas value chain. The Indonesian local content policy designed to promote nationals’ skills development. Companies investing in Indonesia must have training programmes to achieve local target levels.\textsuperscript{36}

4.4.4 Provision for Technological Transfer

Local companies may not have the technological capabilities to meet the demands of the oil and gas industry. In Brazil, the operators must invest at least 1\% of their gross revenue in technological research of oil and gas development.\textsuperscript{37}

4.4.5 Provision for Local Business Development

Local content policies are also adopted to develop the business climate and foster international and local investment. This helps create a strategic approach to increase the value-added within a given country. In Kazakhstan, the local content policy adopted a price discrimination mechanism to favour local companies. Furthermore, other measures such as interest-free loans, advanced payment for local firms and joint ventures (between a foreign and a local firm), support in technological transfer

\textsuperscript{35}The Angolanization policy also advocates for national private or state-owned suppliers are preferred over the suppliers if the price offered is no more than 10\% higher than that of foreign suppliers.

\textsuperscript{36}Presidential Regulation No. 54/2010 and The Oil and Gas Law No. 22/2001 Segregating Regulatory Roles and Commercial Operations.

\textsuperscript{37}The Brazilian Petroleum Law Number 9478/97.
Though local content policies have the above objectives, scholars such as Grossman, Cimino, Huffbauer and Schott have given reasons to believe that local content policies are not favourable policies. Since the protection afforded by local content policies is highly variable. They also hold the opinion that local content policies are not transparent. This makes the policy vulnerable to corruption.

4.5 The Development of Local Content Metrics

Local content metrics are used to assess the delivery of local content requirements and local content development. The metrics assess the extent that the local people or local suppliers are capable of meeting the demands of the energy industry. These metrics can be through the number of local people in the energy industry counted by headcount within a given workforce. Can also be the expenditure spent on local suppliers and or the participation of locally owned companies in contract execution. Local content share can be grown over time, for example, by building skills in the national workforce through training and education, or investing in developing the capabilities and competitiveness of domestic supply chains. Angolan nationals form local content implementation countries such as Angola whereby Decree 5/95 prevents companies from employing non-resident foreigner workers unless at least 70% of the workforce.

Furthermore, policy metrics can be broken down into different subcategories such as professional positions or non-professional positions or some other disaggregation of employment positions in this regard.

38 Law 291-IV/2010 on Subsoil and Subsoil users.
39 Huffbauer, G.C., Schott, J.J. and Cimino-Isaacs, C., 2013. Local Content Requirements: A Global Problem (Vol. 102). Columbia University Press.
40 Tordo, S., Warner, M., Manzano, O. and Anouti, Y., 2013. Local Content Policies in the Oil and Gas Sector. The World Bank.
41 Employment of Foreign Citizens Non-Resident, Decree 5/95, Ministry of the Interior, Republic of Angola, http://www.sme.ao/attachments/article/209/Decree%20No.%20595%20of%20April%207%20Employment%20of%20Foreign%20Citizens%20Non-resident.pdf.
The Production Sharing Agreement for the Shah Deniz Prospective Area in the Azerbaijan Sector of the Caspian states the following metrics “Before the commencement of development: professionals 30–50 per cent; non-professionals 70 per cent, upon commencement of petroleum production: professionals 70 per cent; non-professionals 85 per cent, five years after commencement of petroleum production: professionals 90 per cent; non-professionals 95 per cent”. The metrics for measuring local content in supply chains are divided into two approaches within the expenditure of goods and services. Warner states that “The first seeks to classify expenditure against some definition of a local, national or domestic business entity, that is, the producer or provider of the good or service. The second classifies expenditure by some measure of whether the relevant service or good is deemed to be local and, for goods only, whether the value has been added in-country”. The International Financial Corporation (IFC) further holds that the definition of local can be reached through one or more of the following criteria. Regulatory, geographic, ownership, size of the enterprise and the under-represented groups.

The IFC further hold that the legal framework of a country clearly defines what is regarded as local. The guide describes the geographic region criteria as the communities that are directly impacted by operations, and these places have high expectations for jobs and other opportunities in the oil and gas industry. Local ownership can be supplier owned by foreign capital but located in country X, supplier partly owned by locals with a foreign majority stake, supplier partly owned by locals with a foreign majority stake and supplier wholly owned by

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42 Agreement on the Exploration, Development and Production Sharing for the Shah Deniz Prospective Area in the Azerbaijan Sector of the Caspian Sea, 1996, http://www.bp.com/liveassets/bp_internet/bp_caspian/bp_caspian_en/STAGING/local_assets/downloads_pdfs/pq/SD_PSA.pdf.

43 Warner, M., 2017. Local Content in Procurement: Creating Local Jobs and Competitive Domestic Industries in Supply Chains. Routledge.

44 A Guide to Getting Started in Local Procurement: For Companies Seeking the Benefits of Linkages with Local SMEs. International Financial Corporation. http://www.ifc.org/wps/wcm/connect/03e40880488553ccb09cf26a6515bb18/IFC_LPPGuide_PDF20110708.pdf?MOD=AJPERES.

45 Ibid.
locals. Tordo has a combination of criteria to measure expenditure on local suppliers: “The address is given in vendor registration information, the address on a purchase order or invoice, the geographic location of the service being provided or the production of the good being supplied, the share of equity owned by national citizens (for example, greater than 25 per cent, 50 per cent or 100 per cent), whether the supplier is locally incorporated, whether the supplier is tax registered in the country of operation, including for withholding tax purposes, whether the supplier employs more than a specified percentage of nationals”. Criteria for regional or community suppliers as “The regional/local address in vendor registration, the regional/local address on invoice, suppliers and contractors who source the majority of materials or labour from the province, district, or local communities located closest to the operation”. The measure of the development of local suppliers is also in two main categories. These are the following the input metrics and the output metrics.

### 4.5.1 Input Metrics for Measuring Local Supplier Development

Input metrics are essentially alternative indicators for performance assessment. This assessment is more value-based. It measures the direct proportionality between the costs of vocational and or educational training of the local employees to the value of their future earnings in the energy sector.
4.5.2 Output Metrics for Measuring Supplier Development

Output metrics are more viable than input metrics, they are robust, and they measure the actual improvements of local suppliers over a given period. Output metrics measure the local firm capability to compete with its counterparts in the same energy industry.\textsuperscript{51} They create measurable parameters such as supplier costs, delivery times, labour productivity, duality, volume capacity and HSE performance.

4.6 Alternatives to Local Content Policies

The alternatives to local content policies that can meet the objectives of local content policies.

4.6.1 Implementing Performance Requirements

Sauve defines performance requirements as the “stipulations, imposed on investors, requiring them to meet certain specified goals concerning other operations in the host country”.\textsuperscript{52} Performance requirements must be aligned with other policies such as trade policy, depletion policy, procurement policy, and industrial policy to meet numerous policy objectives.\textsuperscript{53} Sauve further states that performance requirements have the following objectives “strengthening a country’s industrial base and increasing, domestic value-added, generating expanded employment opportunities, promoting vertical linkages between lead (foreign) firms and (local) suppliers, increasing exports, balancing trade, promoting regional development and spatial gaps in development levels, fostering

\textsuperscript{51}Ibid.

\textsuperscript{52}Sauvé, P., 2016. Life Beyond Local Content: Exploring Alternative Measures of Industry Support in the Context of WTO Accession. \textit{Journal of International Trade}, 1, pp. 1–28.

\textsuperscript{53}Moran, T.H., Graham, E.M. and Blomström, M. (Eds.), 2005. \textit{Does Foreign Direct Investment Promote Development?} Peterson Institute.
technology transfers, avoiding restrictive business practices, generating and distributing economic rents; and pursuing various non-economic objectives, such as political independence, the promotion of minority rights or the (re)distribution of political power”. This alternative if adopted can meet the objectives of local content policies.

4.6.2 Creating a Local Business Friendly Environment

Researchers such as Kolstad and Kinyondo state that “a better way to create jobs and stimulate investment is to upgrade the national environment for doing business”. Foreign investors are concerned with economic and political investment climate of a host country. The most accessible mechanism to determine the risk associated with foreign direct investment is through indices from recognised institutions such as the World Bank. The World Bank has a Doing Business Report. The 2019 Doing Business Report in 2019 had the following indicators “starting a business, dealing with day to day operations, accessing finance, getting a location”. If a country has a good ranking in the measured indices, it will automatically attract foreign direct investment. Foreign direct investment adopts a corporate social responsibility as a corporate practice to gain a social license to operate. The presence of direct social responsibility in itself meets the local content policy objectives.

4.6.3 Adopting Strict Corporate Social Responsibility

Votaw describes corporate social responsibility as “something but not always the same thing to everybody. To some, it conveys the idea of legal responsibility or liability; or a socially responsible behaviour in the

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54 Sauvé, P., 2016. Life Beyond Local Content: Exploring Alternative Measures of Industry Support in the Context of WTO Accession. Journal of International Trade, 1, pp. 1–28.
55 Kolstad, I. and Kinyondo, A., 2017. Alternatives to Local Content Requirements in Resource-Rich Countries. Oxford Development Studies, 45(4), pp. 409–423.
56 Doingbusiness.org., 2019. [online], available at: https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf.
ethical sense. It can also be a ‘responsible for’ in a causal mode; some equate it with a charitable contribution or socially conscious. A few see a sort of fiduciary duty imposing higher standards of behaviour on businessmen than on citizens at large”.  

Carroll has held that corporate social responsibility (CSR) covers four categories, namely the economic, legal, ethical and discretionary. The economic aspect views CSR as responsible for job creation, remunerations in the form of payment of wages or salaries and similar commitments. The legal aspect views CSR as business enterprises have to comply with all legal provisions imposed on their activities. The ethical aspect views CSR in the light of companies sticking to ethical standards in their overall actions as a supplement to their legal mandate.

4.6.4 Supplier Development Programmes

The Organization for Economic Cooperation and Development (OECD) adopted guidelines for corporate social responsibility. The guidelines emphasise two mechanisms for supplier development programmes. First is encouraging local capacity building through close cooperation with the local community. This entails business interests, developing the enterprise activities in the local and foreign markets in line with the current commercial practice. The development of human capital formation, creating employment opportunities and facilitating training opportunities for local employees. Furthermore, Suave

57Votaw, D., 1972. Genius Becomes Rare: A Comment on the Doctrine of Social Responsibility Pt. I. California Management Review, 15(2), pp. 25–31.
58Carroll, A.B., 1979. A Three-Dimensional Conceptual Model of Corporate Performance. Academy of Management Review, 4(4), pp. 497–505.
59Ibid.
60Rodrik, Dani. 2008. Normalizing Industrial Policy. Commission on Growth and Development Working Paper; No. 3. World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/28009. License: CC BY 3.0 IGO.
61The OECD Guidelines and Other Corporate Responsibility Instruments. https://www.oecd.org/corporate/mne/WP-2001_5.pdf.
62Ibid.
63The OECD Guidelines and Other Corporate Responsibility Instruments. https://www.oecd.org/corporate/mne/WP-2001_5.pdf.
states that “requirements to implement an approved supplier development programme represent an attractive alternative to enforcing local content rules. Such programmes should: foster adoption of new technologies by the suppliers and produce measurable improvements in value-added, upgrade managerial and technical skills, achieve measurable improvements in managerial practices, achieve measurable improvements in quality output and quality processes and management, result in the insertion of local suppliers into global value chains (GVCs), domestically at least and preferably within export markets over time”.  

4.6.5 Selected Industrial Policy Measures

These are selective industrial policies that implement particular barriers that affect a given sector or sub-sector of the economy. Rodrik states that the use of selecting policies is usually likened to “picking winners”. Moran argues that “a key aspect of needed institutional adaptation involves the recognition that focus of the government should not be on picking winners”. Moran concluded that the private sectors and other notable stakeholders could design and evaluate effective strategic collaborations. Suave argued that “because policymakers do not have full knowledge about the activities that need the most support. It is best to design flexible policies with well-specified objectives able to improve overall allocative efficiency, operate within an agreed timeline (including sunset provisions) evolve key performance indicators and clearly defined exit strategies when policies reveal themselves ineffective”. The outstanding target industry support is the following:

64 Sauvé, P., 2016. Life Beyond Local Content: Exploring Alternative Measures of Industry Support in the Context of WTO Accession. *Journal of International Trade*, 1, pp. 1–28.

65 Rodrik, Dani, 2008. Normalizing Industrial Policy. Commission on Growth and Development Working Paper; No. 3. World Bank, Washington, DC. © World Bank. [https://openknowledge.worldbank.org/handle/10986/28009](https://openknowledge.worldbank.org/handle/10986/28009). License: CC BY 3.0 IGO.

66 Moran, T., 2014. Foreign Investment and Supply Chains in Emerging Markets: Recurring Problems and Demonstrated Solutions. Peterson Institute for International Economics Working Paper (2014-12).

67 Sauvé, P., 2016. Life Beyond Local Content: Exploring Alternative Measures of Industry Support in the Context of WTO Accession. *Journal of International Trade*, 1, pp. 1–28.
• **Promotion of Labour and Skills**: The development of this can be through apprenticeships, training partnerships with international companies, foreign scholarships to address the skill gaps, continuous collaborative strategies for education and research between different sectors and academic institutions; firm supplier joint developmental programmes, capacity building for enhanced labour market forecasting.

• **Technological advancement**: Development of the emergence of firm clusters, granting R&D subsidies and grants for innovative projects proposed by local companies and carried out by local research institutions; awarding prizes and tax benefits to innovative local firms; facilitating a long-term collaborative strategy for education and research between firms, developing production subsidy to innovative local firms.

• **Investment incentives**: Such incentives can be directed to attracting innovative lead firms in the target sectors. This increases competition in the local market and facilitate local suppliers to increase performance.

• **Systems and institutions**: A country can implement competitive industrial strategies, cluster policies, and strategic planning with industry. Experience from other economies proposes the centrally important role of investment promotion agencies and of special economic zones that have a mass human capital, business services and logistics.

### 4.7 Local Content Policies in the Oil and Gas Sector

Local content policies were first adopted and implemented in the 1970s in Norway’s Continental Shelf.\(^ {68} \) Local content was used to facilitate the bridging of the skills and technology gap between the prominent

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\(^ {68} \)Heum, P., 2008. Local Content Development: Experiences from Oil and Gas Activities in Norway. https://openaccess.nhh.no/nhh-xmlui/bitstream/handle/11250/166156/A02_08.pdf?sequence=1&isAllowed=y.
multinational companies and the local oil and gas companies. Local content found its provisions entrenched in the licensing regime, contractual framework, legislation and different policy statements in Norwegian oil and gas economy. The policy was a means on leveraging on the existing skills in Norway, predominantly from the shipbuilding industry into the nascent oil and gas industry. Local content policies were later transplanted to the Nigerian oil and gas industry. Whereby the policy first started from the point of indigenization. A typology of local content policy similar to the community content whereby there is a single unit to benefit from the oil and gas resources.

In the Sub-Saharan local content’s development trajectory, these policies have failed to live up to the expectations of fixing market failure, encouraging and facilitating local inclusion, bridging the technological gap, meeting the demands of the oil and gas industry. Local content policies have so far been exemplary in other countries apart from Sub-Saharan countries. This is attributed solely to the fact that oil and gas policies cannot thrive in a vacuum other factors need to be analysed to ascertain the full effect of local content policies in oil and gas economies. It has been argued that local content policies must develop linkages from the oil and gas sector to other sectors for there to be robust economic changes in any given economy.

4.8 Linkages in the Oil and Gas Industry

Hirschman stated that “these industry linkages were essential for economic development and focused on how to promote the formation of robust input markets in poor countries and target investment to the industries with the strongest linkages”.69 He further categorises and defines linkages as “backward links relate to the demand of one industry for the outputs of other industries (to be used as its inputs); forward links relate to the output of one industry as supplied to other industries (as input for their output), and financial links relate to the taxes paid by the industry to the government (which can then be spent

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69Hirschman, Albert O., 1958. *The Strategy of Economic Development*. Yale University Press.
on other goods and services or saved)." Marcel and Tissot state that “the purpose of developing national content policies is to increase the value generated by the exploitation of a resource that remains in the domestic economy; and to develop linkages between the oil sector and the rest of the economy. What matters is not only what happens in the sector, but what happens beyond." The GIZ mentions the different linkages and these are Fiscal linkages refer to the payments such as royalties that the extractive industry companies make to governments to extract and sell the resources. Production linkages refer to the goods and services that can be developed as a result of the extractive industry operations. These can be divided into the following: Upstream (or backward) linkages: that relate to the procurement of goods and services that the extractive industry sector requires to operate. For example, this includes welding services needed to maintain mining equipment.

Downstream (or forward) linkages: that relate to the beneficiation of extracted commodities through refining, smelting and further downstream processing of the commodity before reaching the final consumer. For example, 98% of the world’s mined iron ore is used to make steel and therefore needs to pass through a steel mill. Horizontal (or lateral) linkages: that relate to the development of new industries using the capabilities of the extractive industry-related supply chain. Apart from originating from the extractive industry project, horizontal linkages can occur from the upstream and downstream level. For example, mining trucks could be re-engineered and adapted to service the logging industry. Consumption linkages: relate to the demand for goods and services resulting from the spending of earnings from the extractive industry sector. This effect is also referred to as induced employment. For example, when a truck driver employed to work at a mine site spends his salary on buying construction materials to build a family house. Side-stream linkages (or enabling factors): relating to the supporting services,

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70 Ibid.

71 Marcel, V., Tissot, R., Paul, A. and Omonbude, E., 2016. *A Local Content Decision Tree for Emerging Producers*. London, UK: Chatham House, The Royal Institute of International Affairs.

72 Linkages to the Resource Sector. The Role of Companies, Government and International Development Cooperation. The Giz. [http://ccsi.columbia.edu/files/2016/07/Linkages-to-the-resource-sector-GIZ-CCSI-2016.pdf.pdf](http://ccsi.columbia.edu/files/2016/07/Linkages-to-the-resource-sector-GIZ-CCSI-2016.pdf.pdf).
know-how and infrastructure necessary for the extractive industry value chain to function. These can benefit the broader economy and can be sub-divided into Knowledge (technological) linkages: relate to the transfer of knowledge and technological know-how. For example, a mining company may require IT services with higher expertise. Apart from benefitting the mining company itself, the developed IT expertise may also benefit other sectors in the economy. Spatial (infrastructure) linkages: relate to the benefits associated with the infrastructure developed for an extractive industry project profiting other actors in the economy. For example, an iron-ore mine is likely going to require railway infrastructure. Other companies (from the mining sector and non-mining sectors) and passengers will benefit from this railway infrastructure if they are granted access.

The above typologies are all critical in facilitating economic development in any local economy. UNCTAD concludes that lack of linkages and limited absorptive capacity in local industries and host economies has led to limited local development. Linkages do not develop in a vacuum, and the government must devise strategies and capabilities to channel these linkages. The government must develop and adopt some policies that will facilitate the effectiveness of linkages. The African Development Bank holds the view that backward linkages to suppliers and service providers are common, and they have a higher development potential than forwarding linkages to processors and distributors. Mbayi also supports Korineck’s view and states that “indeed, most of the evidence of linkage broadening and deepening from African extractives comes from backward linkages although there also are examples of successful forward linkage formation, the prime example being Botswana’s diamond-polishing industry”. UNCTAD states that “host governments have devised specifics linkage instruments and strategies

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73UNCTAD. 2013. *Commodities and Development Report: Perennial Problems, New Challenges and Evolving Perspectives*. United Nations Publication.

74ADB (African Development Bank), 2013. *African Economic Outlook: Structural Transformation and Extractives*. African Development Bank, the Development Centre of the Organisation for Economic Co-operation and Development and United Nations.

75Mbayi, L., 2011. *Linkages in Botswana’s Diamond Cutting and Polishing Industry*. MMCP Discussion Paper. The Open University and University of Cape Town.
to promote linkages in the extractive sector, e.g. ownership requirements, local content requirements, local processing standards, hiring requirements, mandatory corporate social responsibility programmes, supplier development programmes”.76 All the mentioned linkage intervention mechanisms can be attributed to local content requirements and objectives.

4.9 Factors that Promote and Constrain Linkage Promotion

Hansen states the factor that either promotes or constrains linkage development within an economy: (1) Government strategies and capabilities (2) multinational corporations (MNCs) strategies and capabilities (3) the local industrial strategies and capabilities (4) donor strategies and influence.77 Hansen further argues that “forming local linkages is part of foreign firms’ strategies to reduce costs, increase efficiency, access resources and capabilities, and reduce risks”.78 The promotion and restrain placed on linkages formation and development is mainly due to governmental intervention. The factors elaborated below show what promotes as well as constrain the development of linkages in various jurisdictions.

- Government Strategies:

Tordo and Anouti state that “usually companies that supply the oil and gas sector are big foreign firms that have enough market power to displace small local firms from the value chain of the sector”.79 Furthermore, they tend to have well-established and long-term relationships.

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76UNCTAD. 2010. Creating Business Linkages: A Policy Perspective. Geneva, UNCTAD.
77Hansen, M.W., 2014. From Enclave to Linkage Economies? A Review of the Literature on Linkages Between Extractive Multinational Corporations and Local Industry in Africa (No. 2014: 02). DIIS Working Paper.
78Ibid.
79Tordo, S., Warner, M., Manzano, O. and Anouti, Y., 2013. Local Content Policies in the Oil and Gas Sector. The World Bank.
with oil and gas companies. This may create a bias against the use of local suppliers similar to the distortions generated by the practice of dumping in international trade. The Brazilian government in 2009 came up with the Site Opportunities Supply Chain of Petroleum and Natural Gas. This initiative facilitated market information about the demand for materials, equipment and components required to carry out oil and gas projects. This shows that local content requirements can address market failure and information asymmetries.

- **Foreign Firms’ Strategies and Capabilities:**

  Multinational corporations’ strategies and capabilities have paved the way for linkage formation in African extractive economies. These capabilities have been argued by Hoekman and Martin stating that “lead extractive foreign firms will be able to dictate supplier firms and governments to their terms”. 80 Such as outsourcing mechanisms or value chain disintegration tactics. Hansen and Schaumburg-Muller state that “outsourcing takes place to reduce costs, spread risks, and obtain benefits of specialization, and tap into the resources and capabilities of other firms”. 81 Firms can develop shortlists of competent suppliers, they organise competitive bids for contracts, and they devise supplier development and training programmes. Furthermore, they work with authorities to facilitate education, training and local technical capacity. Foreign firms can promote linkages formation and constrain linkage formation.

- **Local Industries Strategy and Donor Influence:**

  Local industry strategies and capabilities are also a driver for linkage formation. McKinsey states that “the financial, strategic and technological capabilities of African industries have improved significantly in

80Hoekman, B., and Martin, W., 2012. Reducing Distortions in International Commodity Markets: An Agenda for Multilateral Cooperation. World Bank Policy Research Working Paper Series.

81Hansen, M. W., and Schaumburg-Müller, H. (Eds.), 2006. Transnational Corporations and Local Firms in Developing Countries Linking and Upgrading. CBS Press.
recent years”. However, problems are in the technical abilities and raising capital are among the significant setbacks of linkage formation in African economies. Based on an expert survey. The African Development Bank shows that technological complexity and lack of skills in local industries places a considerable barrier to linkage development in African extractive economies.

- **Donor Influence:**

  Donors have been increasing in the African continent to engage in the extractive sector due to the substantial commercial aspect of the extractive foreign direct investment. Donors can be active in the following activities (1) Provide technical assistance across developing countries; (2) Build infrastructural, institutional and absorptive capacity; (3) Facilitate specific oil and gas investment projects; (4) Intervening between international extractive firms and local governments. Through these initiatives, donor participation can facilitate or constrain linkage development in extractive economies.

### 4.10 New Trends of Local Content Policies

Local content policies compliance has gained popularity in oil and gas countries. As mentioned earlier, the policies were first introduced in the Norwegian continental shelf in the 1970s. The shift that has been brought about by local content policies is the shift from ad hoc social corporate responsibility towards a prescribed form of implementing local content policies that are strict in definition and qualitative requirements towards value-based economic development.

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82 McKinsey Global Institute, 2011. *Lions on the Move: The Progress and Potential of African Economies.* McKinsey.

83 ADB (African Development Bank), 2017. *African Economic Outlook: Structural Transformation and Extractives.* African Development Bank, the Development Centre of the Organisation for Economic Co-operation and Development and United Nations.

84 Morris, M., Kaplinsky, R. and Kaplan, D. 2011. *One Thing Leads to Another Commodities, Linkages and Industrial Development—A Conceptual Overview.* MMCP Discussion Paper. Milton Keynes and Cape Town, The Open University and University of Cape Town.
The driving factors to this shift in the adoption and implementation of production development policies, is driven by four main reasons. The scarcity of oil and gas resources, energy transition from fossil fuels to cleaner energy, the effects of COVID-19 pandemic on value chains and increased need for governmental control and intervention in the oil and gas industry to crack through the enclave. The process adopted to meet all these concerns is called government intervention. But with the supervening realities that the resource-rich governments and their local companies cannot meet the demands of the sophisticated, capital-intensive and technological demanding energy sector. This has led to joint ventures between the foreign and local entities through local content policies. Such bottlenecks remove the legitimacy of oil and gas operations within any given community, and this brings about the NYMBISM sentiment that hinders the development of these resources. Thus government intervention measures must be associated with energy justice to legitimatise the extraction and development of oil and gas resources within any society.

But it has been evident in countries like Nigeria, Angola, Chad, Venezuela, Ghana and Brazil that he sole implementation of local content policies does not materialise the local content rhetoric. Intervention is also due to the domestic and international pressure that governments give into increase local participation through strong independent institutions. Legitimatising local content policies are complicated since policymakers only implement these policies due to an expected outcome. Hence the qualitative targets are mostly not met, and the policies are usually transformed into a vehicle of driving corruption and distortion of the local market forces. Norway avoided being dependent on oil rents by creating healthy boundaries between the oil wealth

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85Tordo, S., Warner, M., Manzano, O. and Anouti, Y., 2013. Local Content Policies in the Oil and Gas Sector. The World Bank.
86Ovadia, J.S., 2016. Local Content Policies and Petro-Development in Sub-Saharan Africa: A Comparative Analysis. Resources Policy, 49, pp. 20–30.
87Gustafsson, M.T . and Scurrah, M., 2019. Unpacking the Extractivist State: The Role of Weak State Agencies in Promoting Institutional Change in Peru. The Extractive Industries and Society, 6(1), pp. 206–214.
and the political systems. At the same time, avoiding market distortions and adopted viable depletion policies that allowed the industry to develop gradually.\(^{88}\) This was also due to relatively stable socio-economic and political climate in Norway. Unlike other oil and gas resource-rich countries, Norway had a robust fishing and shipping industry that the government did not need to rely on the oil and gas revenues to alleviate poverty in any particular political regime. The UK did not adopt the Norwegian model of avoiding government intervention into the oil and gas industry.\(^{89}\) The UK employed US oil and gas service firms to run the oil and gas industry. As the government gradually taxed these US companies as well as develop their local capabilities to integrate the British oil and gas industry. The UK also set up the “Offshore Supplies Office” intending to raise British participation from 30 to 70%\(^{90}\).

Both the UK and Norway adopted local content policies in the early 1970s after the discovery of oil and gas resources in the North Continental Shelf (NCS). But later in the 1990s due to the Norwegian and UK membership in the European Union local content provisions had to be dropped since EU policies prohibited preference of local firms.\(^{91}\) As a result, both Norway and the UK created standardised oil and gas practices that allowed the local firms and workforce to compete within the oil and gas industry without having preferential provisions. Brazil local content was among the most stringent local content requirements found in most oil and gas countries. This has led to Brazil’s local content policy be a subject of much debate. The policy was introduced in the fifth licensing round in 2003, the policy had heavy requirements, along with hefty fines for non-compliance that increased over other subsequent

\(^{88}\)Thurber, M.C., Hults, D.R. and Heller, P.R., 2011. Exporting the “Norwegian Model”: The Effect of Administrative Design on Oil Sector Performance. *Energy Policy*, 39(9), pp. 5366–5378.

\(^{89}\)Mendes, P.A., Hall, J., Matos, S. and Silvestre, B., 2014. Reforming Brazil’s Offshore Oil and Gas Safety Regulatory Framework: Lessons from Norway, the United Kingdom and the United States. *Energy Policy*, 74, pp. 443–453.

\(^{90}\)Ibid.

\(^{91}\)Hufbauer, G.C., Schott, J.J. and Cimino-Isaacs, C., 2013. *Local Content Requirements: A Global Problem* (Vol. 102). Columbia University Press.
rounds.\textsuperscript{92} This led to delays in developing Brazil's offshore resources.\textsuperscript{93} It resulted in restraining the domestic industry that the policy was meant to foster in the first place. But later the policy became more progressive and steered further investment in Brazil's oil and gas sector by making changes in both the local content policy and the fiscal regime from a tricky policy to a more progressive investor-friendly policy.\textsuperscript{94}

In 2017, the Brazilian National Petroleum, Natural Gas and Biofuels Agency (ANP) redrafted the terms of the Brazilian local content policy. In 2018, the Brazilian National Council for Energy Policy (CNPE) and the ANP published a resolution that paved the way for companies to substitute their local content commitments provided in their existing contracts for lower and simpler local content requirements attached with reduced fines.\textsuperscript{95} The Norwegian model is still ideal as it advocates for gradual government intervention without distorting the market forces. This allows the oil and gas industry of any jurisdiction to progressively develop into a powerhouse that can propel and stir any economy into economic development. Most countries do not have the features that Norway had. While finding its oil and gas resources, it was a stable democracy, with a predictable economic climate, political stability and uniformity in ideology towards the oil and gas industry even though there was a change in government. But what can be adopted from the Norwegian model, especially in the new trends of climate change and low oil prices countries need to adopt a more flexible value-based approach rather than strict qualitative requirements as Brazil did. The formation of local content policies must recognise and take into account all stakeholders involved to meet the principle of justice as recognition.

\textsuperscript{92}de Almeida, E. and Martinez-Prieto, D., 2015. The Impact and Effectiveness of Local Content Policy on Oil Exploration and Production in Brazil. In Oxford Energy Forum (Vol. 98, No. November 2014).

\textsuperscript{93}de Almeida, E. and Martinez-Prieto, D., 2015. The Impact and Effectiveness of Local Content Policy on Oil Exploration and Production in Brazil. In Oxford Energy Forum (Vol. 98, No. November 2014).

\textsuperscript{94}Araujo, F.C. and Leoneti, A.B., 2019. How Attractive Is Brazil's Oil and Gas Regulatory Framework to Investors? The Extractive Industries and Society.

\textsuperscript{95}de Almeida, E. and Martinez-Prieto, D., 2015. The Impact and Effectiveness of Local Content Policy on Oil Exploration and Production in Brazil. In Oxford Energy Forum (Vol. 98, No. November 2014).
implementation and adoption of local content policies must follow due process in the energy value chain to meet the principle of procedural justice. Lastly, the adoption and implementation of local content policies must distribute the gains and ills of having oil and gas within their vicinity.

4.11 Energy Justice Gap Analysis

Energy justice in this book is being intertwined with local integration in the oil and gas industry. Under energy justice, local content policies should not be measured merely on meeting the qualitative requirements within a given sector. But the value of the effectiveness of energy justice must be delivered in the local content application.\(^{96}\) In adopting and implementing local content policies, several aspects must be taken into accounts such as pace of resource exploitation, institutional responsibilities, degree of regulatory intervention and the coherence with other policies such as industrial policy market regulation educational policies, investment mechanisms, labour, taxation and trade, etc.\(^{97}\) The aspects mentioned are expected to be efficient and effective in their implementation due to factors such as a country having good governance, industrial capabilities, technological advancement, favourable business environment, as well as favourable political climate. Oil and gas countries have predominantly adopted local content policies. But these policies have not been efficient in their application. Norway has been the only country with good local content since its inception in the mid-1970s. The research on Norway does prove that the country had a favourable position before finding the oil and gas resources. Good governance of the oil and gas resources was the primary factor for the success of the Norwegian energy sector. But the sovereign funds have also been instrumental in availing economic development in Norway. The Norwegian sovereign wealth fund has over US$1 trillion in assets, and this includes 1.5%

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\(^{96}\) Heffron, R.J., McCauley, D. and Sovacool, B.K., 2015. Resolving Society’s Energy Trilemma Through the Energy Justice Metric. *Energy Policy*, 87, pp. 168–176.

\(^{97}\) Tordo, S., Warner, M., Manzano, O. and Anouti, Y., 2013. *Local Content Policies in the Oil and Gas Sector*. The World Bank.
of global stocks and shares.\textsuperscript{98} This makes it the most massive wealth fund in the world. These economic resources have been capitalised to develop Norway. In the UK, the oil and gas industry is worth over £40 Billion and employs the local workforce into the industry, with 45% of the oil and gas jobs being obtained in Scotland.\textsuperscript{99} Though the UK at first employed US oil servicing companies but later developed a robust oil and gas industry with strong local players such as British Petroleum. The above examples of Norway and the UK show that local content has been solely based on economic development. As long as a country benefits from its natural resource endowments, local content policies seem to be commendable in this regard. As part of the energy justice gap, the research identifies that there is limited incorporation of justice in local content policies. Furthermore, though other countries do not have the same circumstances as Norway, Brazil and the UK if energy justice is adequately applicable, this can lead to the same results due to the following reasons.

### 4.11.1 Distributional Justice

Energy justice is spatial, temporal as well as a societal concept that involves the unequal allocation of benefits and ills and the uneven distribution of the associated responsibilities.\textsuperscript{100} The energy value chain is also disintegrated in the sense that the remote areas where the oil and gas are found are not the areas where the energy resource business is undertaken. Investments are not poured in rural energy-rich regions but in cities with proper infrastructure and capability to absorb the foreign investments. In these rural energy resource areas, only a lack worth of investments that gives a social license to operate and facilitates the energy industry is undertaken. Hence local content provisions cannot be efficient in this manner since there is an uneven distribution of ills and benefits.

\textsuperscript{98}Bahoo, S., Alon, I. and Paltrinieri, A., 2019. Sovereign Wealth Funds: Past, Present and Future. *International Review of Financial Analysis*, 67, p. 101418.

\textsuperscript{99}Littlechild, S. and Vaidya, K., 2019. *Energy Strategies for the UK*. Routledge.

\textsuperscript{100}Walker, G., 2009. Beyond Distribution and Proximity: Exploring the Multiple Spatialities of Environmental Justice. *Antipode*, 41(4), pp. 614–636.
4.11.2 Procedural Justice

Energy justice calls for the use of an exemplary process that equally engages all stakeholders without discriminating any stakeholders involved. This principle calls for all stakeholders to have access to adequate information in a timeous manner. Local content policies have been used to support the interests of the elite. The energy industry is closely linked to politics due to its lucrative advantage compared to other sectors of the economy. Local content policies create rent-seeking tendencies by those connected to the elite, and local content policies have deliberate preferences towards specific stakeholders (mostly local stakeholders). This does not meet the principle of procedural justice; thus, local content policies cannot thrive without due diligence.

4.11.3 Justice as Recognition

Justice, as recognition, takes into account the cultural, social and political aspects of a community. Recognition is not to be put in the same place as participation. Local content calls for the local participation of the local population into the oil and gas value chain. But in this instance, local content will have to take into account the particular circumstances of a given community (most probably the energy resource-rich community). Developing national content may not encompass the peculiarities of energy resource-rich communities. The paradox reached is that a community content serves the principles of justice as recognition. But a national content does not, since the oil and gas resources are mostly found in isolated remote communities.

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101 Bullard, R., 2000. Environmental Justice in the 21st Century. People of Colour Environmental Groups. Directory, pp. 1–21.

102 Walker, G., 2009. Beyond Distribution and Proximity: Exploring the Multiple Spatialities of Environmental Justice. *Antipode*, 41(4), pp. 614–636.
4.12 Summary

This chapter has provided a clear literature review on local content policies both as an abstract notion and in its real-life implementation. The different competing definitions of local content policies across different economies. Explained within different theoretical constructs, namely energy justice, localism and regionalism. It is from these constructs that local content policies typologies are found, namely the national content policy, the community content policy and the regional content policy. The alternatives of local content policies show that these policies are hefty on the balance sheet of the investors and the trade-offs are also severe on the local community. That is why we must address the constraints and promoting factors of linkage development. Because only through linkage development may Sub-Saharan countries be able to crack through the enclave of the oil and gas sector. The enclave nature of this sector is the primary cause of Sub-Saharan countries having resource curse and minimal industrial development from the oil and gas industry. Compared to developed countries such as Brazil and Norway.

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