



How international oil and gas companies respond to local content policies in petroleum-producing developing countries: A narrative enquiry

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HIGHLIGHTS

- Local content policies define the local context that shape IOCs' business practices.
- Provides a narrative analysis of the business practices of IOCs in developing countries.
- IOCs use four narrative strategies to relate their business practices to local content policies.
- The business practices of IOCs can determine the effectiveness of local content policies.

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ABSTRACT

This paper uses narrative analysis to critically examine the business practices used by five international oil and gas companies (IOCs) (Chevron, ExxonMobil, Shell, BP and Total) to respond to local content policies in petroleum-producing developing countries (Nigeria, Angola, Venezuela, Kazakhstan, Brazil, Indonesia, Yemen and Indonesia) during the period 2000–2012. The business practices include the formulation of local content strategies that are implemented through programmes and initiatives aimed at developing and using host country suppliers and workforce. Such practices and the narratives used to communicate them implicitly reflect the context in which the effectiveness of local content policies on economic development can be assessed. By comparing and contrasting the narratives across the five IOCs in relation to the wider literature, four emergent narrative strategies justifying the business practices of IOCs are identified and discussed. They include: (1) direct engagement to renegotiate local content requirements with governments, (2) legal compliance framework, (3) the business case for local content strategies, and (4) corporate social responsibility (CSR) initiatives. The conclusion considers the policy implications of these findings for local content development in petroleum-producing developing countries.

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1. Introduction

Over the past decade, petroleum-producing developing countries have come under international scrutiny regarding institutional reforms involving the enactment of local content policies to regulate international oil and gas companies (IOCs). The policies require IOCs to give preference to the development and use of local suppliers and workers when sourcing technical inputs and human resources for petroleum production.¹ The use of local content policies to stimulate

domestic manufacturing and create employment is not new; however it has become prominent in the petroleum industry in developing countries in the last decade (UNCTAD, 2007) due to ongoing measures by governments to legislate previously local content directives/guidelines (Kazzazi and Nouri, 2012).

The pressure on IOCs to make a positive contribution to economic development through their operations in developing

(footnote continued)

high the significance of local content policies in enhancing the linkages between the petroleum industry and socio-economic development in producing countries (e.g. CRES, 2008a,b; IPIECA, 2011; Tracy et al., 2011; Wilson and Kuszewski, 2011). Mendonça and de Oliveira (2014) illustrate how local content policies became prominent in Brazil and wider Latin America.

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¹ Since 2000 a number of high profile commissioned studies involving governments, international agencies, IOCs, think tanks and civil society groups

countries has a long history, ranging from contributions to government revenue through fiscal regimes and legal contracts (Dongkun and Na, 2010; Auty, 2012) to ad-hoc corporate social responsibility (CSR) initiatives (Auty, 2012). Many studies suggest that this approach, despite being socially desired (Lessard and Miller, 2001) contributed to making the petroleum industry in most developing countries a 'resource curse', a term used to explain the failure of many petroleum-producing developing countries to achieve sustained and equitable economic development (Dieck-Assad, 2006; Auty, 2010, 2012). Where local content policy has been cited as an attractive complementary policy to address the resource curse problem, industry players express concerns about the targets being set as ambitious and a potential barrier to foreign direct investments (FDI) (UNCTAD, 2007; Bakare, 2011). One key question has received limited attention among scholars of energy policy: how do IOCs grapple with the challenges involved in complying with local content policies in petroleum-producing developing countries while remaining competitive?

The above question is particularly relevant because local content policies 'may have commercial implications for investors, operators, developers and service providers, which in turn may result into substantive public policy repercussions' (Sigam and Garcia, 2012, p. 6). Shortage of skilled local workforce and under-developed technical infrastructure make it difficult for IOCs to sustain their operations without using expatriate staff and imported inputs (Ismail, 2010; Warner, 2011). However, by developing and using local procurement and local workforce, IOCs can achieve cost effective and sustainable operations as well as secure social license to operate (Sigam and Garcia, 2012; UNCTAD, 2007). Existing studies have focused on the role of governments in legislating previously local content directives/guidelines into laws to maximise the benefits of petroleum production (UNCTAD, 2007; Klueh et al., 2009; Kazzazi and Nouri, 2012). The evidence suggests that local content policies are shifting the emphasis from revenue maximisation through fiscal policies to an increasing focus on IOCs' contribution to wider societal development through local content policies.

This paper therefore contributes to the energy policy literature by analysing the business practices used by IOCs to respond to local content policies. The proposed framework suggests that local content policies define the local contexts that shape the business practices of IOCs. Business practices are defined as the activities that IOCs undertake to deal with suppliers (Blalock and Simon, 2009; Zhou and Xu, 2012) and human resources (Bjorkman et al., 2007) in host countries which enhance their local legitimacy and competitiveness (Campbell, 2007; Reimann et al., 2012). Using this conceptual thinking the paper uses narrative analysis to examine the narratives used by IOCs to describe and justify the business practices they have adopted to respond to local content policies. Narrative analysis has been shown to be useful for analysing how public, private and civil society actors interpret, negotiate or respond to policy-related issues in the energy (Swiatkiewicz-Mosny and Aleksandra Wagner, 2012; Sovacool and Drupady, 2011), healthcare (Ngoasong, 2009) and agriculture (Hananel, 2010) sectors. Narratives are stories, events or language (Bruner, 1991) published by IOCs and their associates during the period 2000–2012. These narratives are compared and contrasted to construct the narrative strategies (or rational for emphasising one or more practice over another) (Ngoasong, 2009) that IOCs use to justify their local content-related business practices.

Five IOCs namely, Chevron, ExxonMobil, Shell, BP and Total are used as case studies and their business practices are drawn from Nigeria, Angola, Venezuela, Kazakhstan, Brazil, Indonesia, Yemen and Indonesia. The paper argues that the role of local content in stimulating economic development of petroleum-producing countries critically depends on the business practices used by IOCs to respond to local content policies. Such practices implicitly reflect

the context in which local content policies are produced and implemented. The paper is structured as follows: Section 2 develops a framework for analysing local content policies and describes the research method used. Section 3 presents the results from the narrative analysis of the business practices of IOCs while Section 4 discusses the emergent narrative strategies. Section 5 presents conclusions and policy implications.

2. Materials and methods

2.1. The evolution of local content policies in petroleum-producing developing countries

For the purpose of this paper, local content is defined as 'the purchase or use by an enterprise of products of domestic origin or from any domestic source' (UNCTAD, 2007, p. 2) or a regulatory requirement that 'some specific fraction of a good be produced domestically' (Hill, 2012, p. 219). This fraction can be expressed in physical (e.g. component parts) or in value (percentage value of a product) terms. Box 1 provides an overview of the evolution of local content policies in eight developing countries. The overview for each country reveals the historical perspective, evolving nature of the policies including some broad commonalities and differences across the eight countries.²

The main commonality is the evolution from guidelines/directives to legislations. Apart from Yemen, all the countries now defined targets for local procurement, hiring of local workers and penalties for non-compliance, all of which undergo periodic reviews. Another commonality is that while IOCs are the main target, through added value contribution to a host country's economy, host governments have more ownership and decision-making power on the nature and extent of local participation in the petroleum industry.

Notable differences include variations in the precise definitions and provisions, levels of IOC obligations, and the extent to which there are enforcement tools available to host country governments (see also Sigam and Garcia, 2012). Angola and Nigeria now have local content laws that have been validated through parliament while Venezuela has focused on increased state-ownership through nationalisation. Kazakhstan and Trinidad and Tobago are following a similar trend to Nigeria and Angola in legislating previously local content guidelines. As a country with a small petroleum industry base, Yemen does not have any legislation on local content as all existing initiatives are mutually agreed between the governments and IOCs. Exploring the business practices used by IOCs to respond to these local content requirements can enhance our understanding of the role of local content policies in ensuring that the petroleum industry produces desired economic development outcomes.

2.2. IOCs and economic development: The case for local content policies

The main argument explored in this paper is that the role of local content in stimulating economic development of petroleum-producing countries critically depends on the business practices used by IOCs to respond to local content policies. The political economy of petroleum production in developing countries has always been dominated by the role of the state (or government) and those of IOCs in ensuring that the petroleum industry contributes positively to economic development. The industry accounts for the largest proportion of FDI, primary commodity

² Klueh et al., (2009), p. 1133 provides a similarly historical overview of the development of local content policies in Norway, Denmark, Australia, Brazil, Malaysia, and Trinidad and Tobago.

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