

NATIONAL COMMITTEE OF KAZAKHSTAN
PRESENTS



WPC EXPERT WORKSHOP

“Local content development and integration processes”



World Petroleum Council

Place:
Astana, Kazakhstan

Date: 31 October 2016

WORKSHOP REPORT – STRUCTURE AND CONTENT GUIDELINES**PART 1 – PLANNING & LOGISTICS**

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A) PLANNING OUTLINE – ORGANISATION OF THE EVENT (WHO/HOW)

The Expert Workshop was organised by the National Committee of Kazakhstan represented by KAZENERGY Association. It took two years to hold the Expert Workshop due to the staged division into the Expert Workshop and its preparatory Panel Session titled identically to the Workshop which was hosted by KAZENERGY within its X Eurasian Forum in 2015. In order to gather the main issues of the local content development in the petroleum countries worldwide the Working Group of the international and Kazakhstan experts was created. Initially KAZENERGY has sent the invitation emails to all the list of the WPC members, after which the candidates were nominated to take a part in the programme formation. Moreover, the experts in local content development in oil-gas industry recommended by the WPC were invited to participate in the Expert Workshop. Some of those experts who made a remote input were not able to take a part in the Expert Workshop discussions, meanwhile brought an invaluable contribution into its realisation by bringing the ideas.

All the National Committees were invited to the Expert Workshop by KAZENERGY and the WPC. The President of the WPC opened the Expert Workshop jointly with the Deputy Chairman of KAZENERGY, also the President was moderating two panel sessions. Mostly, the National Committees referred to the experts who are specialised in the local content development, hence, the Expert Workshop included the experts from the following organisations: DNV GL - Oil and Gas, A.T. Kearney, MOL Group, Shell International Exploration & Production B.V., Boston Consulting Group, PSA LLP, National Agency for Local Content Development NADLoC, Ministry of Energy of the Republic of Kazakhstan, Tengizchevroil LLP, Karachaganak Petroleum Operating B.V., KazService Union oilfield service companies of Kazakhstan, Informational-analytical center of oil and gas of Kazakhstan, North Caspian operating Company N.V., Algoritmi Kz LLP and others.

The length of the workshop was 5 hours.

The Expert Workshop was held in the round table format due to its convenience to freely discuss the issues by all the experts without going to the arena or tribune. There were 25 experts who were sitting around the table and other 50 participants who were sitting in the room, also took part in the discussions and q&a sessions.

The Expert Workshop was held in the framework of the Annual Caspian Technical Conference and Exhibition of the Society of Petroleum Engineers, therefore was partially supported by the SPE through providing the room and technical equipment, and access of the Expert Workshop participants to the SPE conference events.

The Expert Workshop was registration free, while people who wanted to participate in the Expert Workshop had to register in advance.

Communication strategy was planned in advance, and the most effective approaches were selected, as follows:

- save-the-date invitations were sent via emails through the distribution list to make people aware of the forthcoming event;
- official letters signed by the Special Adviser of the President of the Kazakhstan National Committee of the World Petroleum Council were distributed;
- announcement about the Expert Workshop sent by the WPC Secretariat;
- KAZENERGY official website announcement;
- WOM.

B) LESSONS LEARNED FROM THE PROCESS OF ORGANISING THE WORKSHOP

In order to create the strong Working Group as well a favourable list of experts, it is better to start the process in advance, so that the experts could plan their schedules considering the event.

In addition, the communication strategy is extremely vital. Hence, there is a need to appoint a person who will be responsible for the updating the distribution list.

PART 2 – CONTENT & OUTCOMES

The Expert Workshop on "Local content development and integration processes" was carried out in Astana on October 31, 2016, organized by the Kazakhstan National Committee together with the Secretariat of the World Petroleum Council (WPC) with the support of the Ministry of Energy of the Republic of Kazakhstan and the Society of Petroleum Engineers (SPE).

Representatives of ministries, agencies, national and international companies, industry associations and others were the participants of the meeting.

The Workshop aimed to analyze the international practice in local content development, research the best practices, review the experience of the Republic of Kazakhstan in enhancing the Kazakh content and implement measures to stimulate the creation of new industries. The recommendations were collected together to improve public policies for the local content development in different countries.

A welcoming speech at the event opening was made by the President of the WPC Dr. Jozsef Toth and the Vice-Chairman of KAZENERGY Association, Special Adviser to the President of the WPC Jambulat Sarsenov. They expressed satisfaction that the local content development initiative that was put forward by colleagues from the Kazakh National Committee under the WPC, represented by KAZENERGY Association, received a support in other producing countries.

"Today such workshop with the participation of industry experts are now taking place on a regular basis on various topics in many countries around the world. This year the workshop in oil carried out in Spain, Chinese colleagues discussed the prospects for the development of non-traditional hydrocarbons, and the United Kingdom discussed the financing of the oil and

gas industry, etc. Kazakhstan provides a platform for the discussion of the issues of local content development", - J. Sarsenov said.

As Frederic Farschi from Shell has said that current actions to increase the local content is now considered worldwide as a way of creating an interaction between the government, industry operators of the oil and gas industry and companies supplying goods and services. While sharing Shell experience in this direction, he said that before investing in a local supply chain and work force, the foreign companies need at first to connect with local suppliers, understand future business demand and build the supplier development plans. He cited the Philippines as an example, where Shell, in developing skilled resources, trained 9,000 workers.

Nils Andreas Masvie from the DNV Norwegian Company informed that the local content development legislation in Norway had been introduced in 1972, and now it protected the interests of local suppliers of goods and services. However, according to article 54 of the Petroleum Law, "Norwegian goods and services shall have a preference, providing they are competitive in terms of price and quality, plan and service". Many years ago, the Norwegian Government established a framework for industrial and technological development, clearly defined roles and responsibilities between the government and the oil industry. The law provided fair treatment with Norwegian companies, determining that the supply base should be located in Norway. The Ministry has monitored the tender process and an assessment of bids, and Norwegian companies have had earlier access to all tender data. According to Nils Andreas Masvie, the Norwegian oil and gas industry above was built with a focus on "Norwegian content" rather than "Norwegian ownership". The main focus of Government, then and now, is on the contribution of contracts into the expansion of the economy, employment, production and technology and technology transfer strategy. The share of foreign ownership among Norwegian suppliers is still well above 50%. He noted that the DNV which had opened an office in Astana in 2006, recruited local staff for long-term sustainable business.

With regard to the experience of Kazakhstan, Jambulat Sarsenov reported that the share of the extractive industry, including oil and gas industry, increases annually in the country's economy structure, which leads to its one-sided development and a reduction in overall competitiveness. However, the oil and gas industry could become a consumer of the products and services of enterprises belonging to other sectors of the economy and thus contribute to macroeconomic stability, modernization of the economy and social welfare of the people of Kazakhstan. The domestic manufacturing industry has the potential to saturate the domestic market with domestically competitive products, but to date the volume of production and, consequently, the procuring of domestic goods, works and services is insignificant compared to the volume of imported goods, works and services. There were and are many countries in a similar situation. Some of them, such as the United Kingdom, Brazil and Norway, have made significant progress.

As we know, the Republic of Kazakhstan is now a part of the global and regional integration processes. Our country is a member of the Eurasian Economic Union and has recently been admitted into the World Trade Organization. In this regard, the issues of maintaining the competitiveness of domestic enterprises and the further development of state policies in the field of local content are acute.

"Dynamics of development of Kazakhstani content in the field of subsoil over the last six years shows an increase in the share of Kazakhstani goods, works and services. Taking into account the participation of Kazakhstan in the integration processes, it is necessary to achieve an equilibrium between the stimulation of the local content, the supply chain, the ensuring the competitiveness in international markets and the sustainable development of domestic

production and human resource capacity in the subsoil use sector. This situation is typical for many countries of the region. In this regard, the particular interest is the studying of advanced foreign experience and the development of international cooperation in this area with experts of countries-members of the World Petroleum Council", - the Vice-Chairman of the KAZENERGY Association said.

"It is clear that in the context of integration processes it is not possible to apply the measures of stimulating the domestic producers and suppliers only by the forcing the subsoil users to acquire goods and services from them. Accordingly, it is necessary to introduce alternative measures of support for domestic producers, which we believe should be reflected in the Code of subsoil and subsoil using. In particular, the State regulation of the procurement of subsoil users, which is an indispensable tool for the development of the Kazakhstani content and is not contradict with the requirements of the WTO, should be preserved, adapting it to existing realities", - the Deputy Director of the Department of Subsoil, Ministry of Energy of the RK Shakirov reported.

In the course of the interactive panel, the subsoil users shared their opinions and experience, including Tengizchevroil LLP (TCO) who is a developer of the largest Tengiz oil and gas deposit (Atyrau region). In TCO which has many examples of successful cooperation with local suppliers, the creation of service centres, the realization of the industrialization programme and others are seen as opportunities for their development.

Significant obligations on the development of local content in Kazakhstan are carried by such concerns as Shell and MOL Group. The main focus of the world in this direction they made on interaction between the Government, oil and gas operators and suppliers of goods and services. In this case Shell is guided by the "Winner-winner" strategy. At the same time, the training of local specialists, training courses, advanced training courses, etc. is the main factor for investors.

Joerg Doerler, Principal, Oil&Gaspractice A.T.Kearney Russia & CIS reported at the seminar that the Supporting state programmes were not sufficient for the full development of local suppliers. In his report, he said that the current preferences tended to limit the competition, which did not always stimulate the domestic producers to develop service and provide innovative solutions. At the same time, the customer focus on purchasing at the lowest price often leads to lowering quality and efficiency. The development of domestic producers requires the stimulating of main customers and the creating the development program with the financial obligations. The development of suppliers should be beneficial for all participants of the economy: the introduction of new technologies and the improving the quality lead to increase the in the competitiveness of the economy. The development program should be a document with clear numerical and qualitative indicators: clear formalized criteria with bonuses and fines in the case of compliance/non-compliance should exist to track the implementation of development goals. The customer must understand why he need to develop the local content and what is the economic benefit: The detachment of supplier development objectives from the customer's real needs leads to non-optimal investments.

Researching of the Boston Consulting Group (BCG), presented at the seminar, shows that the localization issues are high on the government's agenda, but experience shows that the issue cannot be solved "head-on". The lessons on different aspects of the localization process, both positive and negative can be learned from the international experience. The concept of localization developed by BCG provides an analysis of the ways of localization development in different countries, which can be conditionally divided into three waves with increasing degree of complexity. Wave 1 (short-term horizon) aims at the organization of basic systems/processes and the development of local procurement and employment creation.

Wave 2 (medium-term horizon) aims at the developing the staffing reserve, improving staff and creating the infrastructure and local business. Wave 3 (long-term horizon) is aimed at the developing players able to compete in regional markets, organizing the educational institutions and developing the research-and-development activity. According to BCG, in recent years, for example, Kazakhstan has made significant progress in the field of localization, mainly for elements of Waves 1 and 2. The strategy with localization targets and detailed action plans were approved in 2010. A national agency for the development of local content (NADLoC) has been established to define the methodology and design the IT systems. A series of Joint Venture has been established with foreign companies; In general, the localization rate has reached 63%, and 55% in the oil and gas industry. However, as noted in the presentation, the key factor of the growth of localization is the low cost of work force and the production of basic materials; to move to the next level, it is necessary to shift priorities in the direction of competitive industries, education and research and development. An integrated approach to the segmentation of industries and development of strategies including the identification of the necessary level of government support to promote activities with increased added value creation, the development of special sectoral educational programs with the sponsorship and active participation of large foreign companies operating in the region, in partnership with local universities and with the active involvement of international universities is required. It is recommended to focus Research and Development efforts not on creating new technologies, and also on localizing the existing technologies/equipment/services relevant to specific industries.

Resume and recommendations

In general, the initiative to carry out a complex of expert seminars, put forward by the Kazakhstan National Committee under the meeting of the WPC Council in Astana in 2012, annually causes considerable interest among the profile officials, suppliers of goods, works and services, as well as the expert community.

In order to further development the local content for many countries in the region, it would be useful and even necessary to modernize and increase the efficiency of existing production, to realize transfer of technologies and form the competent human resources. It is necessary to achieve a successful balance between the stimulation of local content, the supply chain system, ensuring the competitiveness in international markets and the sustainable development of domestic production and human resource capacity in subsoil use. In this regard, the studying of best foreign experience and the development of international cooperation in this direction with experts of countries-members of the WPC is of particular interest.

The experience shows that sectoral non-commercial associations like KAZENERGY play a significant and effective role in organizing and developing business cooperation between foreign producers and local suppliers.

It would be useful to use a variety of discussion formats in the future and, when inviting speakers to take into account their readiness not to report, but for discussions, arguably arguable disputes.

C) CONTACTS

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**D) SUPPORTING DOCUMENTS AND PRESENTATIONS ARE ATTACHED TO
THE REPORT**