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Local Content Lessons from Latin America

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ELLA
Evidence and lessons
from Latin America

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- Latin American countries represent **20.1% of the proved oil reserves in the world** (British Petroleum, 2015).
- Oil and gas producing countries in the region include Ecuador, Colombia, Venezuela, Argentina, Mexico, Bolivia and Brazil and they represent 60% of the oil reserves in the Americas.
- Local content strategies in LA and how they vary from country to country and have achieved different outcomes.
- Latin America's **longer tradition in the extraction of natural resources is a rich source of experiences for other regions.**

We observed 7 oil and gas producing countries in LA and analysed the LC frameworks and the strategies they have adopted to promote LC.

We assessed LC outcomes achieved by countries in LA and tried to establish connections between the existing frameworks and policies and achieved local content outcomes in order to identify lessons.

SPECIFICITY OF LC FRAMEWORKS

- Is LC embedded in policies, legislation and/or contracts?
- Do frameworks include measuring, monitoring and implementation mechanisms?

ADOPTED STRATEGIES TO PROMOTE LC

- Generation of national/local employment.
- Skills development and technology transference
- Local procurement policies to enhance participation of national industries

LOCAL CONTENT OUTCOMES

- What kind of outcomes have the countries achieved based on the existing LC frameworks and adopted strategies

Assessment of Local Content Frameworks in Latin America – SPECIFICITY

Table 6. Local Content Frameworks - Specificity Scoring

Strategy	Criteria	ECU	COL	BRA	ARG	BOL	VEN	MEX
Local Employment	Presence in Oil and Gas Legal Frameworks	1	1	0.5	1	1	0.5	0.5
	Measurement	1.5	1	0.5	1	1	1	1
	Monitoring and Implementation Mechanisms	0.5	0.5	0.5	0.5	0.5	1.5	0.5
Skills Development	Presence in Oil and Gas Legal Frameworks	1	1	0.5	-	0.5	0.5	0.5
	Measurement	0.5	1	1	-	0.5	-	0.5
	Monitoring and Implementation Mechanisms	0.5	1	1	-	0.5	0.5	0.5
National Industry Participation	Presence in Oil and Gas Legal Frameworks	1	0.5	1.5	0.5	0.5	0.5	1.5
	Measurement	0.5	0.5	1.5	0.5	0.5	0.5	1.5
	Monitoring and Implementation Mechanisms	0.5	0.5	1.5	0.5	0.5	0.5	1.5
	Local Employment	1.00	0.83	0.50	0.83	0.83	1.00	0.67
	Skills Development	0.67	1.00	0.83	0.00	0.50	0.33	0.50
	National Industry Participation	0.67	0.50	1.50	0.50	0.50	0.50	1.50
	Total Average	0.78	0.78	0.94	0.44	0.61	0.61	0.89

Source: Own elaboration

Assessment of Local Content Frameworks in Latin America – OUTCOMES

Table 7 Local Content Frameworks - Outcomes Scoring

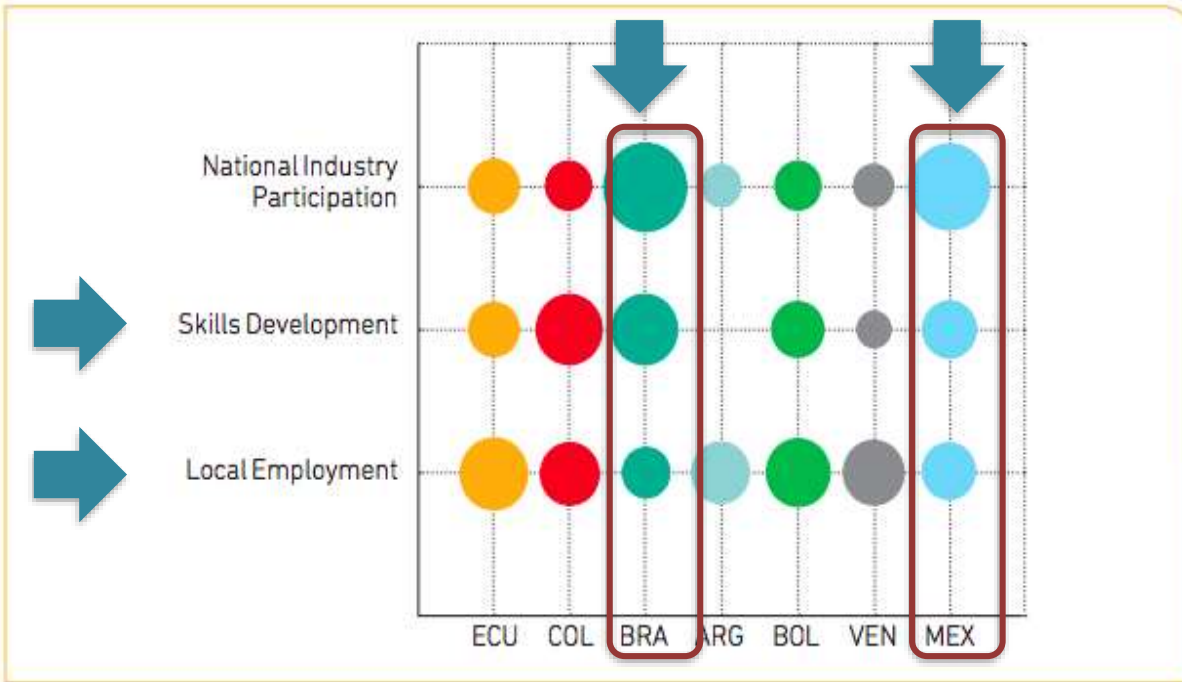
Dimension	Criteria	ECU	COL	BRA	ARG	BOL	VEN	MEX
Local Employment	Data from oil and gas companies	1.5	1.5	1.5	-	-	1.5	1.5
	Contracts	1	0.5	0.5	0.5	1	-	0.5
	Secondary sources	1	0.5	1	1	1	1	1.5
Skills Development	Data from oil and gas companies	0.5	1.5	1.5	-	-	0.5	1
	Contracts	0.5	1	1.5	-	1	0	1.5
	Secondary sources	0.5	1	1	0.5	0.5	0.5	0.5
National Industry Participation	Data from oil and gas companies	0.5	1.5	0.5	-	-	-	-
	Contracts	0.5	0.5	1.5	-	0.5	-	1
	Secondary sources	0.5	1	1.5	0.5	0.5	0.5	1.5
	Local Employment	1.17	0.83	1.00	-	0.67	0.83	1.17
	Skills Development	0.50	1.17	1.33	-	0.50	0.33	1.00
	National Industry Participation	0.50	1.00	1.17	-	0.33	0.17	0.83
	Total average	0.72	1.00	1.17	0.28	0.50	0.44	1.00

Source: Own elaboration

Main Findings – LOCAL CONTENT STRATEGIES

What does it mean in terms of outcomes?

Figure 4 Local Content Strategies in Latin America

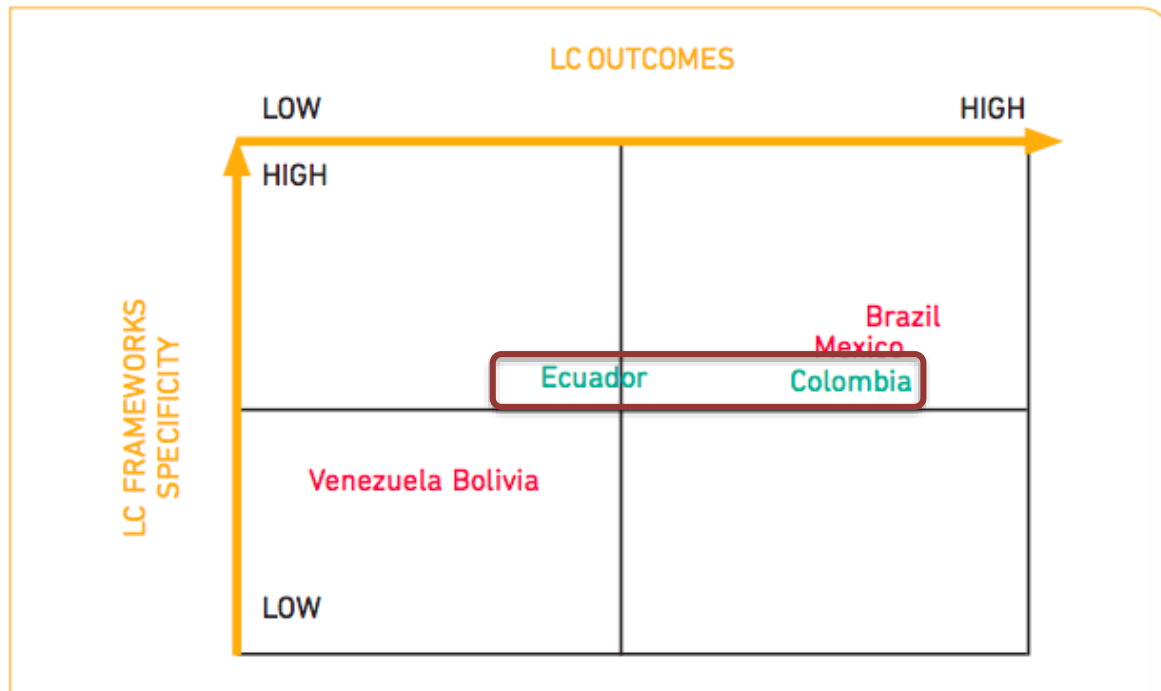


- The countries that have prioritized national industry participation over other strategies have also achieved better LC outcomes.
- The promotion of national industry participation can be a long term investment that also requires investment in skills development and local employment.

- **Countries with longer trajectories** designing and implementing LC strategies (Brazil and Mexico) **have focused on increasing the participation of their national industries** in the oil and gas sector.
- The **majority** of Latin American countries have **frameworks mostly focused on the promotion of local employment** (Ecuador, Bolivia, Argentina and Venezuela).
- **Few countries** (Colombia, Brazil) **have prioritized skills development and technology transference** in their strategies.

Main Findings – SPECIFICITY OF LOCAL CONTENT FRAMEWORKS

Figure 2. Relation Specificity – Outcomes



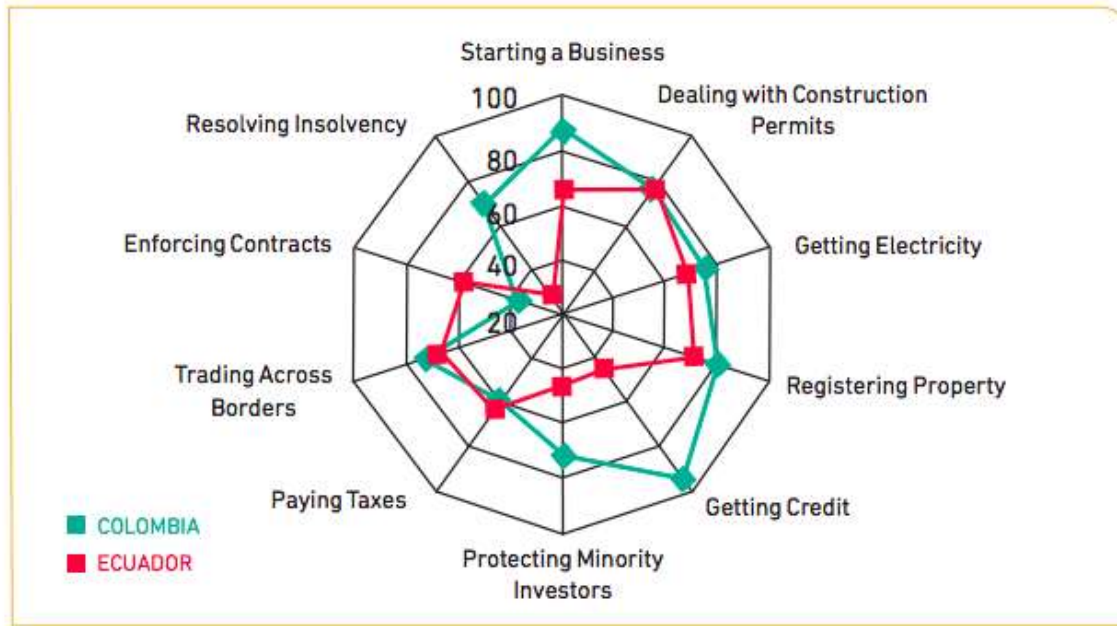
Source: Own elaboration

What does it mean in terms of outcomes?

- Countries that have developed more specific LC frameworks have also achieved better LC outcomes.
- LC frameworks with more developed monitoring and implementation mechanisms have achieved better LC outcomes.

- Brazil and Mexico have been successful in developing strong LC frameworks with strong monitoring mechanisms. These mechanisms are embedded in the institutions that run the oil and gas sector in these countries.
- Venezuela and Bolivia were the countries with weaker frameworks and less available mechanism to measure and monitor LC. These were also the countries that achieved lower LC outcomes.

Main Findings – EXTERNAL FACTORS



What are the key differences between Ecuador and Colombia?

1. Enabling business environment.
2. Public-private partnerships to enhance and promote LC.

- Colombia has adopted a more open approach to LC where competitiveness and innovation have a central role. Ecuador on the other hand has remained focused on the public sector with little space for private initiatives and incentives.

Final Remarks



- Many countries in Latin America have relied in the generation of local employment as the main LC strategy. While this can help alleviate the social and economic pressure that extractive projects can cause, it also increases dependence in the sector and has no guarantees to be sustainable in the future.
- National Industry Participation is a more promising LC strategy in terms of its correlation with positive outcomes. This strategy requires a stronger and well developed industrial base that can serve as a catalyst to ease the participation of national industries in the oil and gas value chain.
- Countries that have emphasized skills development and national industry participation tend to achieve better LC outcomes. This implies that a NIP strategy has to be included within a long term vision and more comprehensive policies in order to be achievable.
- However, it is important to note that local content strategies do not solve dependence on the extractive sectors. The experience of Latin America is an example of this. Our findings show that a long-vision towards the diversification of a country's productive matrix has more potential to contribute to long term development.



Thank you!

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