



Making the Most of Our Oil and Natural Gas

**Maximising Benefits and Value Retention from Guyana's Petroleum Resources
Through
Capacity Development, Local Content and Value Addition**

A Policy Framework – Working Draft for Discussion and Input

**Ministry of Natural Resources
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Foreword

From its earliest days as a colony, and even now as an independent State, Guyana has produced and exported raw materials that are sent for further processing and refining elsewhere; with minimum value-added activity taking place in country. This has been the case for our mineral, agricultural and forest wealth, and along the way, though Guyanese have gained tremendous skills and abilities that made them experts in natural resources management, they still cannot claim to be at the apex of the processing of the natural wealth and patrimony. Despite these gains, many of the acquired skills and knowledge are put into practice abroad and we cannot claim to be the true owners and developers of the various stages of the value chain of the natural resources our national patrimony. Too many Guyanese remain marginally involved in the industrial development of the natural resources and this has to change.

With the long awaited announcement that Guyana has oil and gas in commercial quantities, citizens of Guyana have another opportunity to advance the past gains made by the brave men and women in their various endeavours to own, extract and control value from our natural resources. This policy therefore, shall have as its primary aim and objective, the ensuring of the education, inclusion and advancement of as many as possible in the value chain of the oil and gas industry.

This matter cannot be left to chance and must therefore take the steady and deliberate efforts of the Government of Guyana, the operators in the industry, the private sector and civil society- all working together, and with unity of purpose, to ensure the attainment of this singular objective by ensuring that there is an enabling and supportive environment for Guyanese to enter, compete and thrive in the unfolding oil and gas industry.

The Local Content Policy (LCP) will be developed over time and in tandem with the growth of the industry. At present, Regulations will not be promulgated, but may become necessary as the industry unfolds and expands, and impetus is needed to steer the process or to solidify gains.

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Minister of Natural Resources

Draft Policy Framework for Capacity Development, Local Content and Value Addition for the Petroleum Sector in Guyana

Objectives:

This policy framework seeks to *address* the suite of *opportunities* that may arise and the approaches to be taken in selecting and developing opportunities related to enhancing the capabilities of Guyanese nationals and businesses through:

- (i) training, development and employment initiatives (Capacity Development),
- (ii) ensuring availability of ownership participation for qualified Guyanese equity interest (Ownership Value),
- (iii) supplier development provisions for goods and services by locals to support sector operations (Local Content);
- (iv) the various aspects of handling, processing, trading and utilisation of produced crude oil and natural gas and their derivatives (Value Addition); and
- (v) well-tailored social contributions for greater impact and benefits (Societal Benefits).

It also describes what will be done to ensure that the activities in the petroleum sector are conducted in a manner that transparently secures the maximum benefit for the people of Guyana, while recognising the limitations of the country and holding all actors accountable to the present and future generations of Guyanese who are the owners of the nation's petroleum resources.

Materiality of Direct Benefit to Country (scaled)

1000's millions

Business scaling and monetization

100's millions

Leverages tax revenue

Supply chain spend

10's millions

Employment of Nationals

1's millions

Social contributions

Context

Guyana's recent major oil and gas discovery has focused attention on the value generated by activities surrounding both its anticipated development and production and the expected increase in exploration for additional reserves, as well as from the use and sale of oil, gas and products derived from them.

In addition to revenue accruing to the State via taxes and royalties, Guyanese are aware of the potential to capture and retain value within Guyana through the conduct of activities and the offer of services along the value chain of the resource. Almost all of these services are currently imported into Guyana.

Provision of these activities requires skills, technology, equipment, infrastructure and services, most of which are not currently present in Guyana. We Guyanese are confident that, with a guided strategy, some of our existing skills, services and facilities can be used, improved and enhanced, while others can be introduced, supported and grown to:

- meet more of the needs of the sector,
- support the growth of other sectors of the economy and
- perhaps, even be exported.

While Guyanese individuals and businesses naturally see the development and production of oil and gas providing opportunities for participation, we are acutely aware of the realities of the situation in which we find ourselves. We recognise that:

- The oil and natural gas industry in Guyana is in the infant stage of development.
- There have been multiple oil and gas field discoveries deemed commercial since 2015.
- Although it is world scale and of very significant size, its development will take place during a period of low oil prices and global oversupply of both the commodities and the services sector.
- Guyana is a small developing country, in terms of its human capital, technology base, services capability, international competitiveness of indigenous businesses and the size of its economy and capital markets.
- Although Guyana has a long history of mining and services to that extractive industry, Guyanese capability and experience in the oil and gas sector, including among those in the diaspora, is very limited.
- Many of the goods and services used by the sector are highly specialised, requiring very high levels of technology and innovation and investment capital and experienced specialists. Some are used only for short periods in any project or operation and require a very large pool of potential clients to be sustained.
- No country in the world manages to get to 100% local content. Most experts acknowledge that accessing a wide pool of talent, bringing experience from different locations and situations brings efficiency of operations and can fast track the learning experience of collaborators.

- The availability of oil and natural gas presents Guyana the opportunity to consider using the raw materials as inputs to processing, refining, manufacturing and power generation, which can support our development goals through enhanced industrialisation and revenue generation.

Guyana's petroleum discovery and this policy framework come at a time when several developing countries have been privileged to make similar, potentially transformative discoveries. Many have implemented local content policies and legislation, with varying degrees of success. At the same time, more mature oil and gas provinces have seen major discoveries and have also used their experiences to implement local content policies and strategies.

Guyana is fortunate to be able to benefit from the experiences of these and to consider them in designing a policy that is fit for purpose and allows for fair and relatively simple implementation and oversight, while remaining flexible to respond to changing circumstances.

Policy Drivers

The current situation offers encouragement for enhanced engagement and participation of Guyanese nationals and businesses as:

- Given the current discovery and declaration of commerciality, Guyana is assured of a relatively long period of production operations
- It is anticipated that a robust exploration programme will follow
- There is hope this will yield further discoveries, field developments and production operations

Even so, we are mindful that, in addition to general business services support, the sector requires some very specialised skills and services, always of a very high standard, while *only providing a small amount of direct and indirect jobs*. For example, in neighbouring Trinidad and Tobago, long known as a significant petroleum producer, the sector engages less than 4% of the work force.

It is the growth and diversification in the economy and the supporting skills, services, technology and infrastructure base that have catapulted the development of those countries which have managed oil and gas well, not the direct impact on employment and businesses. These success stories are further generally characterised by good governance of the sector and country; a key requirement for sustainable development.

As a new industry, there is an opportunity to design and operate the required governance framework, institutions and legal and regulatory instruments (including policies, legislation, regulations, contracts, licences, permits, decision making criteria, reporting requirements, guidelines and procedures) to the highest standards required. Done well,

this will ensure transparent and accountable management of the resource and can become a catalyst for transformation of the governance of the entire country and economy.

Petroleum industry activities are conducted by some of the world's premiere firms, utilising best in class people, technology, systems and procedures to manage their businesses and relationships. They are also well governed and engage world leading approaches to risk and financial management, transparency and accountability. Their presence in our midst provides a unique opportunity for Guyanese firms to learn from these major operators and suppliers by working alongside and for them, to create well governed and managed Guyanese companies that will generate opportunities for locals to invest in the petroleum sector and enhance the local capital market, while raising the competitiveness of the business environment.

Investments and activities in the sector require long timelines, often out of sync with national election cycles. Robust management of the sector to enable maximum benefit capture therefore requires a *common vision or aspiration for the sector and country*, across the political divide, which lends itself to predictability in policy direction and sector governance.

Value from the sector can be gained or retained from:

- i. Selecting the best safe, efficient and considerate operators and services providers
- ii. Contracting with them to get the best possible deal for Guyana, while affording investors a fair return on investment
- iii. Managing their operations to ensure that Guyana and Guyanese have access to opportunities to capture value from:
 - a. capacity building of individuals, firms and the capital markets
 - b. the provision of goods and services (*backward linkages*)
 - c. benefit to other sectors of the economy (*lateral linkages*) and
 - d. value addition to produced raw materials (*forward linkages*)
- iv. Determining and collecting revenues due to Guyana in an efficient manner
- v. Using and investing those revenues for sustainable development, while saving for the future

Recognising that the oil and gas resources of Guyana:

- are a finite, non renewable part of our national assets
- are the property of all Guyanese
- will be used to repay all the costs associated with finding, producing and selling them, through cost recovery, meaning that their costs are ultimately paid for by the people of Guyana

it is incumbent on the Government of Guyana to ensure that as much of the value of the resource as possible is retained in Guyana, through diligent management that provides for a fair distribution of benefit and investment in the future sustainability of Guyana.

To ensure our Local Content policy drivers are impactful, the law will focus on the key local content components of a successful strategy:

OWNERSHIP	Setting minimum requirements for ownership through equity participation on licences is a common local content component
TAXATION	Public revenues (tax) generated from the oil and gas industry can be used to counter commodity price volatility. Taxes can alternatively be saved in sovereign wealth funds, for use to benefit future generations
SUPPLIER DEVELOPMENT	Capital and operating expenditure in the oil and gas industry is significant. There is opportunity to localise supply chains in procuring goods and services that serve the industry. This can have the impact of reducing operating costs in country and at the same time increasing local participation which creates value for both the oil company and the country
EMPLOYMENT & TRAINING	The industry requires relatively few people with highly specialised skills in the upstream and is thus not a significant employment generator. Downstream operations can provide more jobs on a sustainable basis, such as in refining and petrochemical operations. Investment in skills development to build expertise and foster scholarships at petroleum and technical schools
SOCIAL IMPACT PROGRAMS	Social impact/economic programs enhance under-served communities a foster a holistic program of inclusion

Limited in number as we are, Guyanese nationals have grown into leading thinkers and doers in all spheres of human endeavour, across the globe. We take pride in the achievements of our countrymen and fellow West Indians who have historically taken our limitations to be a source of inspiration and allowed us to take on the

world and prosper. “You can’t do it because...” has been a rallying call of West Indians. We intend to do it because we believe that we can.

To be inspired is a necessary requirement for achieving great things. To be foolhardy is a recipe for disaster. Guyana will approach the oil and gas sector in a very pragmatic and thoughtful manner.

Policy Goal

Through innovative and collaborative mechanisms, and in the context of changing circumstances, Guyana intends, by way of local content and value addition, to capture so much value and benefit from our oil and gas resources and the related activities, that we shall translate the blessing of our oil and natural gas resources below the ground to a sustainable economy above it, faithful to our green brand and the heritage of our people. We shall be counted among those few developing nations who have managed an extractive industry and used the patrimony as a source of national development and sustainability.

Policy Statement

This policy recognises that the petroleum resources of Guyana belong to all its citizens, and represent an asset of significant intrinsic value, which once removed diminishes the wealth of the nation, unless there is transformation in value from resources below the ground to improved quality of life above it for current and future generations of Guyanese.

Guyana will approach the development of its petroleum resources, people and businesses in a pragmatic, transparent and accountable manner. This will be conditioned by existing circumstances and an analytical approach to understanding the resource, the activities it engenders and our input capabilities. We shall pursue strategic opportunities for local capacity development and participation that give us the maximum possible benefit now and in the future.

Guyanese will participate in a manner that gives us preferred access and opportunities to improve and enhance our capabilities, becoming internationally competitive, so that we will progressively provide a greater amount of future services.

Capacity development, to enable more value retention, will be treated as an investment, rather than a cost.

In maximizing benefit from oil and gas activities, Guyana will develop capacity in our citizens and businesses and use them to benefit from:

- **Backward linkages** - making use of the supply chain (i.e. local content)
- **Forward linkages** - making use of the produced resources (i.e. mid and downstream value addition, including using power for industry)
- **Lateral linkages** - making use of the sector⁷ to benefit other sectors (in this case, using the O&G sector to invest in capacity that it needs and which can benefit other sectors.

This will require collaboration with industry, development partners, advisers and other development stakeholders, including civil society to: (i) Determine what is *possible* in terms of provision of goods and services to the sector

- (ii) Identify what is *desirable to economic growth and support national development objectives*
- (iii) Select, invest in and pursue those that are *viable and sustainable*
- (iv) Monitor, evaluate, report, learn and continuously improve the approaches being taken

By thorough analysis and collaboration with those who know more than we do, Guyana will determine the POSSIBILITIES for our participation.

Knowing who we are and where we want to go as a nation and a people, Guyana will select from among those possibilities what we find DESIRABLE to engage our people and propel us into development.

We shall be pragmatic enough to recognise our limitations and only invest in those that are VIABLE and SUSTAINABLE.

We shall continue to learn from both the success and mistakes of others, especially those who have been able to use local content as a facilitator of national development. In so doing, we shall follow the pragmatic approach of “Doing it in Guyana if we can; doing it by Guyanese will follow.” This will involve:

- (i) Giving preference to Guyanese where the capability exists.
- (ii) Developing the competencies of Guyanese where the demand supports the required investment
- (iii) Partnering international participants with Guyanese, to enable technology and knowledge transfer and access to investment opportunities for Guyanese
- (iv) Facilitating the entry into Guyana of international service providers and experts, to allow for ease of knowledge and technology transfer.
- (v) Extend Guyanese participation where it supports national development and/or enables global competitiveness
- (vi) Use the petroleum sector’s demand to build strategic assets, skills, training institutions and businesses that support the sector and can be leveraged for lateral benefits to other sectors
- (vii) Develop and implement appropriate regulations to ensure clarity, transparency, accountability and consistency in the application of this policy.

This policy will apply to participation by Guyanese in all parts of the value chain, including the mid and downstream activities of the sector, whether conducted within or outside of Guyana, where practical.

Implementation Strategy

Given the limitations and uncertainty as to the future potential level of activities and demand for goods and services that will be required, any investment to facilitate and support capacity building for Guyanese participation and value addition in Guyana must be well considered, strategic and flexible to respond to changing circumstances around the state of the petroleum resource base, activity levels and the capacity of the local supply chain.

Recognising that our investment partners may have more experience and preferred ways of doing business, the government will seek to influence them by making it clear that all decisions must first consider the best interests of all Guyanese, including future generations. Acknowledging that the use of new or unfamiliar suppliers introduces an element of risk, the Government of Guyana will work with industry partners to mitigate those risks, rather than completely avoiding them.

We are confident that, given the industry's hallmarks of innovation and risk management, along with our partners, we can come up with mutually beneficial solutions that will convert those challenges into opportunities for our people.

We take pride in the knowledge that, in spite of our small population and limited resources, through our history we, along with our neighbours in the region, have had to face much bigger challenges and have flourished, rather than wither at the prospect of facing difficult odds. We have faith in the ability, resilience and persistence of our people to enter and succeed in this new sector and the phase of our development that it will usher in if we stay true to our purpose. We know that to do so, we have to work collaboratively, learning from the knowledge and experiences of others.

Recognising the *status quo* re Guyana's readiness, the pace of development and existing arrangements, the Government of Guyana will implement these measures in a pragmatic and staged manner, involving the ability to review progress and adjust our approach, as needed:

- Starting with areas where Guyana has existing capabilities or where some of its service providers can readily transform to meet the industry needs
- Focusing growth on areas of major spend and of strategic interest to Guyana's development
- Working in collaboration with industry to identify the roles required to conduct their activities and the requisite competencies and certifications, so that Guyanese are prepared well in advance for future opportunities

- Using this information to work with other stakeholders, including development partners, educational and training institutions, professional bodies, services companies, civil society and individuals, to inform training and other capacity development programmes, infrastructure development and local financing and investment in the sector

Local Supplier Development will Progress from:

- *Giving preference to existing capabilities; then*
- *Enhancing these to become world class; then*
- *Extending them into related or complementary areas*
- *Elevating developed and qualified ones to become internationally competitive.*

The **Implementation Strategy** will be characterised by *fairness*, through ease of access to opportunities, information on the capabilities and availability of Guyanese citizens and businesses and transparency of decision-making.

These will be ensured through *accessible data and timely, useful information*. These will serve to help Guyanese understand clearly:

1. **Demand** - the full range of possible activities and requisite skills, goods, services, standards and certifications required in conducting the whole business of oil and gas, along its entire value chain, both within and outside Guyana, from exploring for it to the final use of its end products.

- ✓ Very early in the life cycle of operations, the government of Guyana will work with operators, advisors and others to identify and simplify these and to make them accessible, so that all Guyanese can have an appreciation of the requirements, scale and scheduling, so as to make good decisions in matters involved, from educating their children or themselves to investing in their businesses or their land.

2. **Supply** - the Government of Guyana will identify the existing supply base, in terms of skills, services and certifications, and make these available and accessible to operators and contractors (local and international), other agencies of government, training institutions, development partners and individuals in Guyana and the diaspora, so as to:

- ✓ Allow locals a fair chance to submit their credentials to be considered for participation
- ✓ Enable international operators and services companies to identify local employees and suppliers from within Guyana and in the diaspora
- ✓ Support those managing work permits, to help them identify local skills gaps and make work permit conditions tools of capacity development, rather than barriers to entry of requisite skills.

3. **Closing Gaps** - The Government of Guyana will work with stakeholders, including development partners, investors and skills development agencies to design and deliver training programmes for individuals and firms, appropriate to the sector's needs.

- ✓ There will be a focus on **progression** from:
 - i. Giving *preference* to *existing* capabilities;
 - ii. *enhancing* these to become world class;
 - iii. *extending* into related or complementary areas;
 - iv. *elevating* appropriate ones to become internationally competitive.

4. **Success in implementation** - will require **procurement strategies** by operators and their international contractors, which will be characterised by *local capacity development and local content strategies* and *plans* for all major programmes of work at all stages of the petroleum life cycle, inclusive of:

1. *Procurement strategies* which will support this national policy and strategy
2. *Capacity development* programmes for local employees and contractors
3. *Support for national training and research and development* programmes
4. World class *supplier development strategies* by sector participants that seek to facilitate access by Guyanese through mechanisms such as:
 - Unbundling of contracts to reflect the state and growth potential of the local market
 - Market conditioning, including early notification of intended activities
 - Preferential treatment of locals
 - Contract management with supplier performance improvement strategies
 - Facilitating partnerships between Guyanese and international suppliers
 - Providing contract terms that facilitate access to competitive financing and opportunities to learn and grow
 - *Transparency* of and accountability for decision making in procurement.

Contributing to National Sustainable Development

- For expansion of the supply chain in Guyana and among Guyanese, **priority** will be given to those goods and services that are sustainable in demand and which can provide viable investment opportunities. Through the participation of individuals and mutual funds, this will enable capital aggregation and sharing of the benefits of the sector by a wider section of the population.
- Recognising that our limitations constrain Guyanese from participating in all aspects and/or fully in many aspects, the approach to local participation will **focus** primarily on those areas that align with existing local capabilities and/or support national development objectives, especially the enhancement of other sectors of the economy.
- Supply chain development, encapsulated in plans and procurement strategies, will address national development by investing in skills, training institutions,

equipment, technology, infrastructure, facilities, capital aggregation and services that can support the enhancement and safety and security of mining, manufacturing, construction and other industries and economic sectors that are strategic to Guyana's national interests.

- By demanding high standards and supporting suppliers to attain them, the industry will raise the standard of services, competencies, across the board, to enhance the competitiveness of our firms and Guyana.

Governance

Recognising that development of the sector with Guyanese as viable participants in it requires stewardship and collaboration, governance of the sector will require policies and strategies that engender and leverage partnerships between the Government of Guyana and other participants.

For **assurance**, this policy will be enforced through:

- Appropriate **legislative** mechanisms and
- Regulated by a capable, well resourced and accountable **institution**

The **Regulator** will:

- Be overseen by a multi-stakeholder body representing those Guyanese parties involved in delivering national development and sector goals that support and/or are impacted by local capacity development and participation in the sector.
- Report to the people of Guyana through their elected representatives in the Parliament of Guyana, as provided for in the Constitution of Guyana.
- Require international operators and contractors to manage their procurement through local content policies and strategies that align with the national policy, for every:
 - Licence or contract awarded by the GoG
 - Major Exploration, Appraisal or Development Plan, Programme, Project and Operation
- Monitor, evaluate, report, review, learn and improve, via
 - Requiring **registration** and **licencing** of all suppliers
 - Transparent and accessible **databases** of:
 - Suppliers
 - Guyanese professionals and technicians, within Guyana and the diaspora
 - Demand – projects, activities and timelines
 - **Certification** of suppliers:
 - Competency based
 - Local content level re beneficial ownership and level of inputs of suppliers

- Use work permits as a tool for capacity development, rather than barriers to entry of skilled personnel
- Setting targets, measuring performance and reporting – *“What gets measured gets done”*:
 - From time to time, the regulator setting targets to drive performance, but which are realistic and developed in consultation with industry and capacity development agencies
 - Ensuring that these targets and performance against them are made public and participants held accountable for performance
 - Catering for clear, consistent oversight and reporting, metrics and reporting will be:
 - kept simple, measurable and transparent
 - supported, monitored and reported with standard reporting guidelines, templates and procedures