

Briefing

Draft local content policy for the oil & gas industry in Tanzania

The first draft of the long-awaited local content policy for the oil & gas industry in Tanzania has now been published by the Ministry of Energy and Minerals (**MEM**). MEM is now inviting comments on the draft from all stakeholders (all comments to be submitted prior to 20 May 2014).

This update sets out some of the key provisions of the draft policy.

Background and aims

The draft policy cross-refers to the principal pillar identified in the National Gas Policy 2013 that:

“Natural gas resource found in Tanzania belongs to Tanzanians and must be managed in a way that benefits the entire Tanzanian society”.

This statement is identified by the draft policy as forming the basis for the local content policy for the oil & gas industry in Tanzania.

The draft policy also specifies the following aims:

- Devising local content implementation strategies for the development of competitive, capable and sustainable local labour. The policy aims at generating and promoting adequate supply of local workforce with the necessary knowledge and skills.
- Developing strategies for fostering the transfer of technology and knowledge. The Government will also need to invest heavily

in research and development if it has to seize the high calibre opportunities in the oil and gas industry.

- Setting a mechanism that will enable Tanzanians and their businesses to tap the opportunities to manage and supply goods, services and labour.

Key focus areas

The draft policy identifies the following five key focus areas to be addressed:

- Capacity building and technology and transfer.
- Participation of Tanzanians and Tanzanian owned entities.
- Procurement and usage of locally produced goods and services.
- Fabrication and manufacturing in-country.
- Socio-economic responsibilities.

We will now look at some of the key aspects of these focus areas in more detail.

Capacity building and technology transfer

Non-Tanzanian owned companies wishing to participate in the oil & gas industry will be encouraged to work with a local Tanzanian partner. The interest held by the Tanzanian entity will be transferable only to another Tanzanian entity.

Accordingly, the Government will:

- ensure every player in the oil & gas supply chain and value chain puts emphasis on local participation;
- ensure that there will be specified thresholds for local participation at each stage in the value chain; and
- ensure local firms have full and reasonable access to procurement opportunities.

All operators in the oil & gas industry (**Operators**) will be expected to prepare and implement plans for the transfer of technological know-how and skills to Tanzanians.

In order to increase the availability of skilled and properly-qualified local personnel, the Government will:

- ensure support is provided to local training and technical institutions;
- encourage the use of specialised input, technology and knowledge through the adoption of the use of PSAs to allow participation of the IOCs;
- ensure the establishment of a Centre of Excellence for oil & gas; and
- ensure that research and development functions in the country are strengthened to accommodate the needs of the oil & gas industry.

Participation of Tanzanians and Tanzanian owned entities

All Operators will be required to prepare training programmes on all aspects of oil & gas industry-related activities carried on inside and outside of Tanzania.

These training programmes must extend across as many staff categories as possible and must be reassessed and revised on an annual basis.

Preference must be given to the employment of Tanzanians who have the requisite expertise or qualifications. Where a foreign national is employed, a succession plan to a Tanzanian national must be submitted with the work permit application.

All Operators will be required, as far as practicable, to use goods and services produced by or provided in Tanzania by Tanzanian owned businesses. This must be done in preference to foreign goods and services provided in Tanzania by foreign registered business in Tanzania or foreign businesses not registered in Tanzania.

Where Tanzanian owned businesses can meet the quality, quantity and time required but at a higher price, then Tanzanian owned businesses will receive a margin of price preference as will be prescribed by legislation.

Where bids are being evaluated, and where bids are otherwise equal, the bid containing the highest level of Tanzanian content shall be selected.

Where a foreign entity wishes to provide goods and services for a licensee (ie the holder of a licence for upstream exploration or an entity for whom TPDC holds such a licence), the foreign entity shall operate from Tanzania and partner with a Tanzanian owned and registered company.

Procurement of locally produced goods and services

In order to create market opportunities for local goods and services, the Government will:

- ensure there is a compulsory local content requirement in every invitation to bid;
- ensure that contractors and lead sub-contractors manage risks of local businesses to allow their participation; and
- ensure transparency, value for money and competitiveness in every procurement process undertaken by contractors and sub-contractors.

In-country fabrication and manufacturing

In order to enhance the level of use of Tanzanian local expertise, goods and services, people, businesses and financing in oil & gas activities, an industrialisation strategy will be adopted.

Accordingly, the Government will:

- ensure availability of equity financing to local businesses engaging in country fabrication and manufacturing;
- ensure that Tanzanians with the requisite skills are available to participate in fabrication and manufacturing;
- encourage multinationals to bring their global oilfield services and equipment to Tanzania; and
- ensure the development of a consolidated domestic fabrication industry.

Socio-economic responsibilities

The draft policy will:

- address gender issues and HIV & AIDS;
- maintain safe working conditions and the environment; and
- maximise benefits to local communities as key priorities.

The Government will do the following:

- ensure that all projects in the oil & gas value chain including training opportunities are based on gender equality and equity;
- work with IOCs to facilitate the provisions of preventative and curative education on HIV & AIDS and other infectious diseases to stakeholders in the oil & gas industry;
- ensure that Operators adhere to statutory and

international best practices on environment management and protection;

- ensure that the industry establishes and adopts sound environmental management systems;
- ensure that there is a contractual obligation to all investors and contractors associated with natural gas activities to undertake locally prioritised community development programmes;
- ensure companies in the oil & gas industry submit credible corporate social responsibility action plans to the appropriate authority; and
- ensure that availability of a monitoring mechanism that aims to achieve local priorities supported by CSR in a responsible and “*value for money*” manner.

Implementation

New legislation (ie Local Content Act, Natural Gas Act and Natural Gas Revenue Management Act) will be implemented and existing legislation (ie Income Tax Act and EWURA Act) will need to be amended.

The Minister for Energy and Minerals will consult with the relevant government agencies to propose fiscal incentives to assist:

- foreign companies which aim to develop technological capacity and the skills of citizens; and
- local Tanzanian companies which establish factories and production units in the country.

A National Local Content Committee and Petroleum Regulatory Authority will be established. These bodies will oversee the implementation of the local content policy.

Further information

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