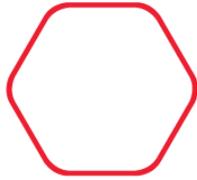


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Local content requirements in Brazil: timeline and lessons learned

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#1

CONTEXTUALIZATION: LOCAL CONTENT POLICY

Local Content in Brazil

Definition

Local content consists in the **proportion** between (i) the **expenditures with national goods and services** in **E&P contracts** and (ii) the **total expenditure** for this purpose

Goals

- Appropriation of long term oil income and move away from commodity dependency
- Stimulate demand to increase participation of local suppliers in a competitive basis

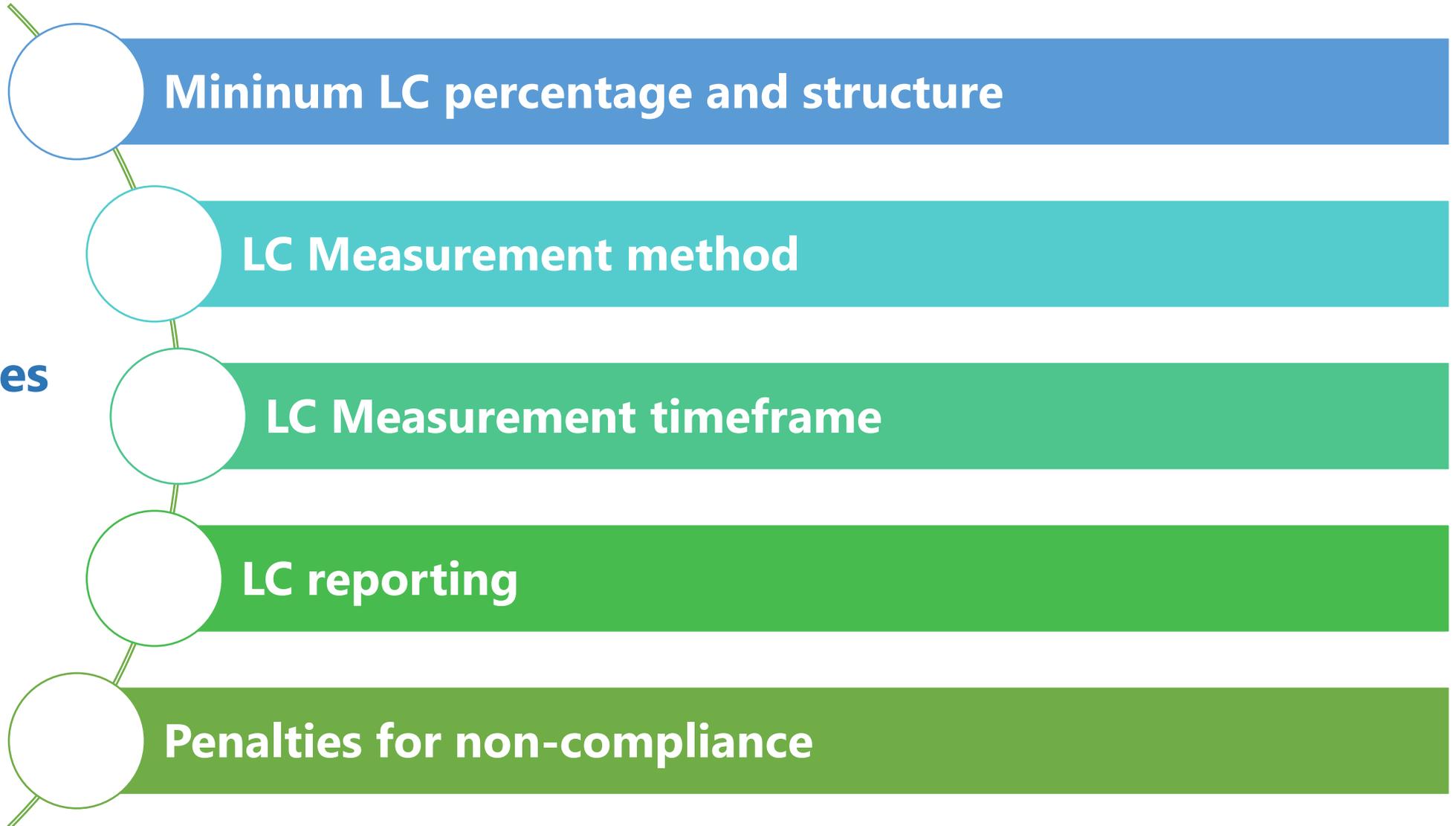
The role of ANP

National Council of Energy Policy (CNPE) defines de local content policy and ANP is responsible for its execution, regulation and supervision



Local content in E&P contracts

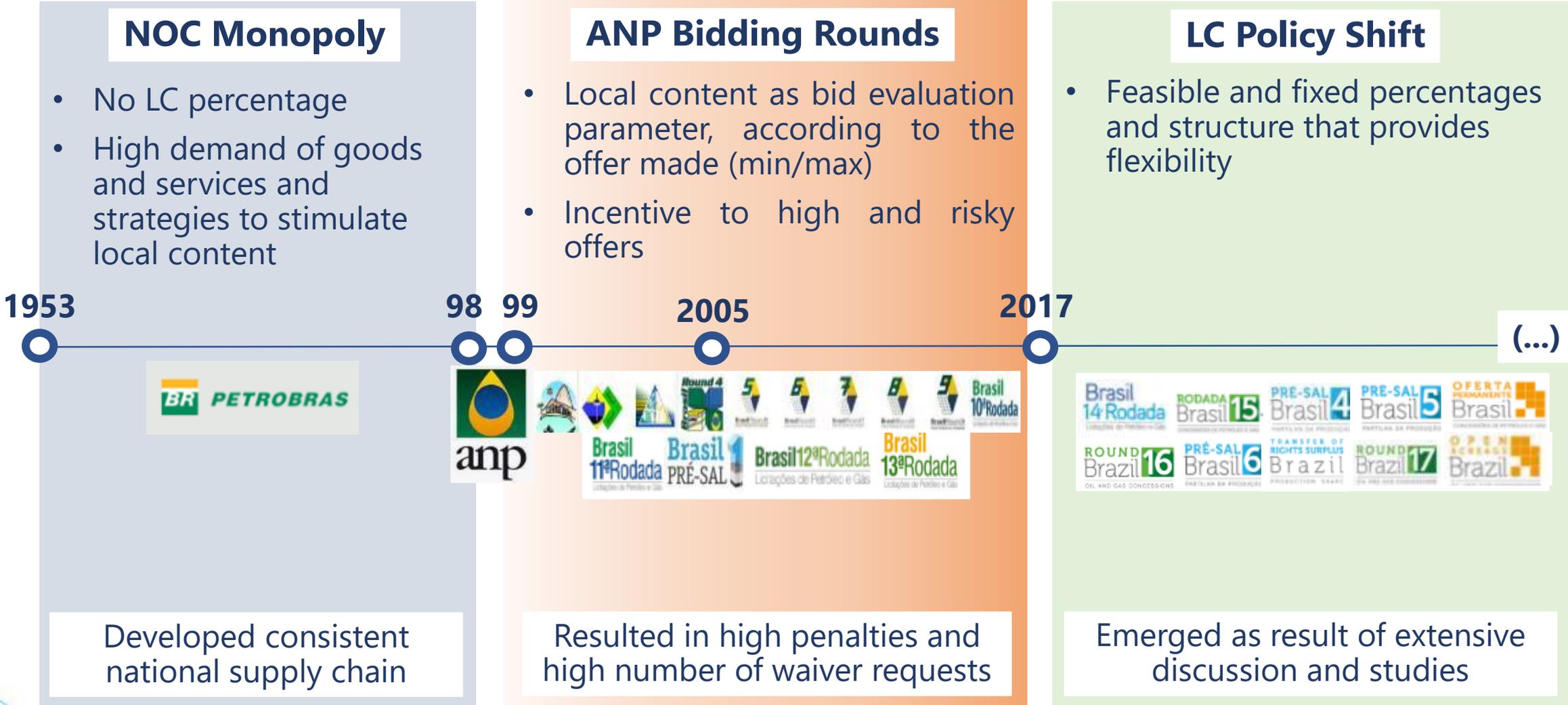
LC clauses



#2

TIMELINE: LOCAL CONTENT PERCENTAGE

LC percentage and structure – timeline



LC percentage and structure – since 2017

EXPLORATION PHASE	Onshore:	50%
	Offshore:	18%

DEVELOPMENT STAGE	Onshore:	50%	
	Offshore	Wells	25%
		Subsea	40%
	Platform	25%	

- ✓ No waivers and no longer LC as a bid fator (pre-defined percentages)
- ✓ These requirements are being applied since 14th bidding round (2017)

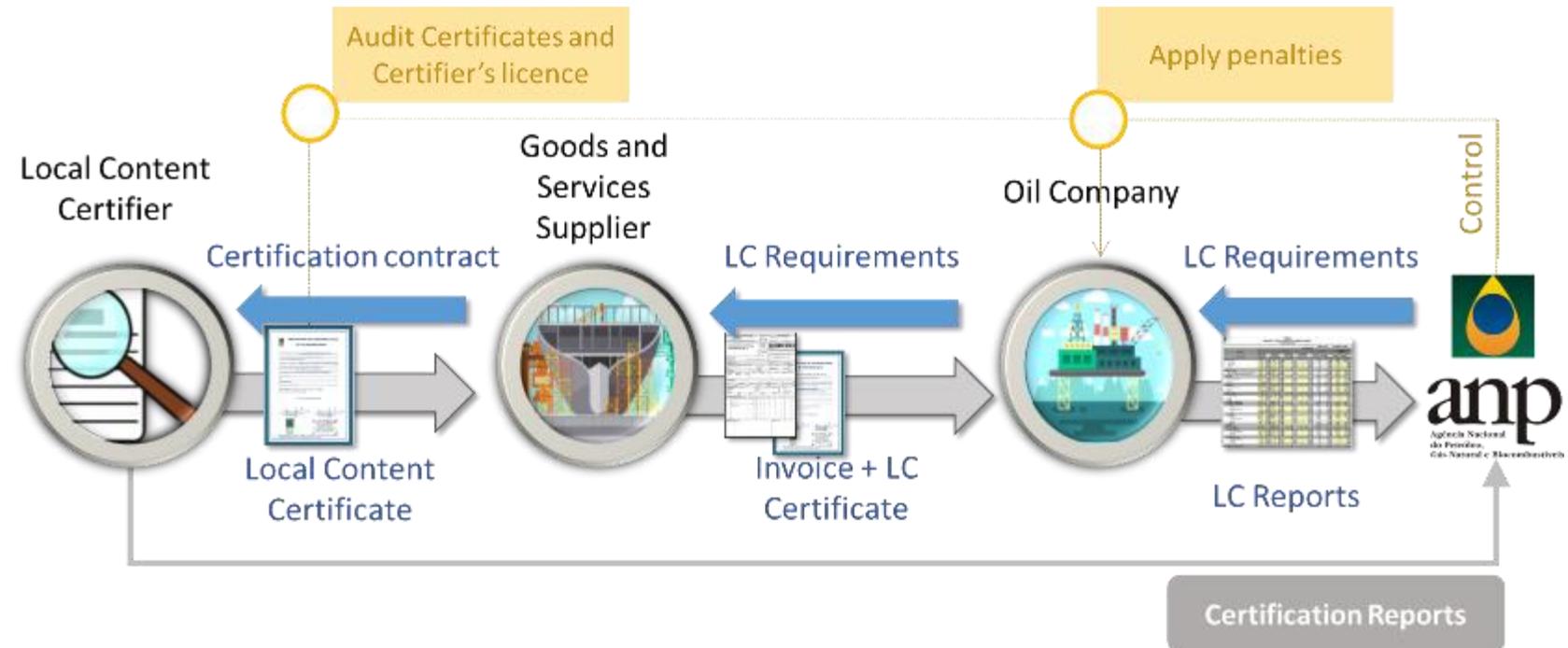


LC Measurement method: certification

Local content as expenditures in national goods and services

- ✓ **National supplier** is not a requirement for local content, what matters is the the nationality of goods and services supplied
- ✓ **% of nationality of goods and services** are measured according to components, inputs and labor

Certification structure

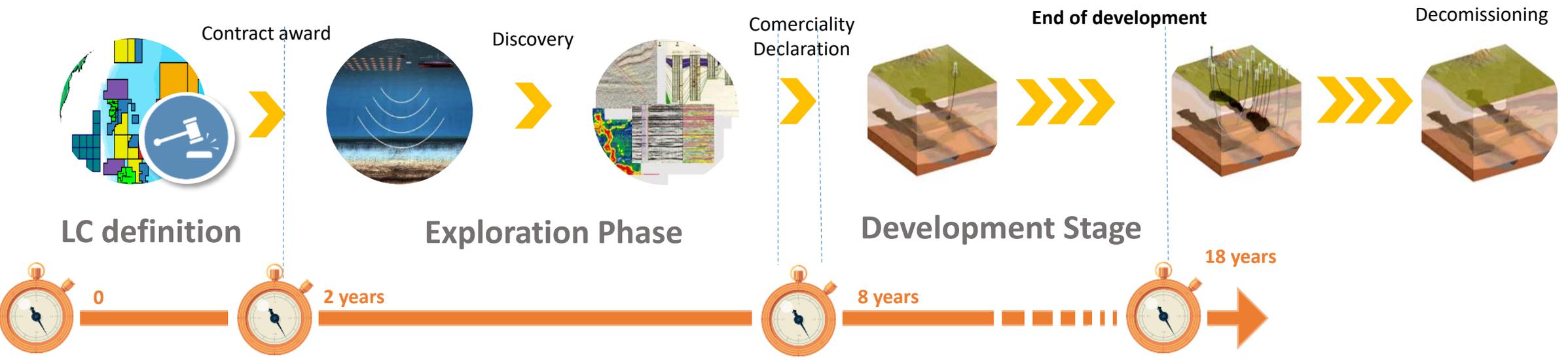


#3

LESSONS LEARNED

E&P investment maturation

Long term requires flexibility and moderation



**20 years under the pre-defined LC requirements =
UNCERTAINTY AHEAD**

- ✓ Market inputs: commodities prices, exchange rate
- ✓ Local industry capacity
- ✓ Technological shifts

Alternative LC requirements

Brazilian model

- ✓ Minimum percentage of local content + certification to define what is national
- ✓ LC is set since contract award (predictability) and allows strategies to compliance (flexibility)
- ✓ Penalties to stimulate compliance

Inputs for alternatives

- Establish criteria to define what is a national supplier or supply based on the fabrication process, rather in ownership or localization
- Establish optional incentives: stimulate higher investments in key sectors
- Negotiable LC: compensations in agreements and partnerships with locals

Investments in R&D&I, human resources development, technology transfer or direct investments to establish companies for specific production process in national territory

Lessons Learned

Costs

Benefits



Collaboration with players and transparency

Monitor and measure since the beginning

- Monitor national suppliers' delivery capacity and bidding rounds results
- Set policy goals and measure results, mainly by establishing indicators

Share results and coordinate with related policies

- Synergy with other industrial policies

Balance predictability and flexibility

- E&P long term investment maturation requires flexibility due to uncertainty

Balance incentive and penalties

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