

CMI WORKING PAPER NUMBER 6 2016
REPOA WORKING PAPER NUMBER 16/4

WORKING PAPER

AUGUST 2016

This REPOA/CMI
working paper
features research
on Tanzania as a
future petro state



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AUTHORS

Abel Kinyondo

Director of Strategic
Research, REPOA

Espen Villanger

Senior Researcher,
Chr. Michelsen Institute

Local content requirements in the petroleum sector in Tanzania: A thorny road from inception to implementation?

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Authors

Abel Kinyondo

Director of Strategic Research, REPOA

Espen Villanger

Corresponding author.

Senior Researcher, Chr. Michelsen Institute

Graphic designer

Kristen B. Hus

Printed version: ISSN 0804-3639

Electronic version: ISSN 1890-5048

Printed version: ISBN 978-82-8062-600-4

Electronic version: ISBN 978-82-8062-601-1

This working paper is also available at: www.cmi.no/publications

www.repoa.or.tz

www.cmi.no

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ABSTRACT

Tanzania has recently discovered huge offshore natural gas fields. This has led the Government to develop local content policies (LCPs) to increase job and business opportunities for nationals in the sector. We study the process behind the development of these policies and the positions of stakeholders. We find that although there is a positive view among domestic stakeholders of imposing such policies, there is much suspicion—to such a degree that it shapes their recommendations of which policies to include in the LCP. One reason is that the Government monopolized the policy development process and abstained from conducting a consultative process. Our findings suggest that future Tanzanian policy development should include in-depth consultations to maximize the decision maker's knowledge base, add to the transparency of the process and manage expectations. This would also contribute to effective implementation and lessen tensions, conflicts and suspicion among stakeholders.

This research is funded by the Norwegian Embassy in Tanzania, which is gratefully acknowledged. We are also grateful to Odd-Helge Fjeldstad, Kendra Dupuy, Siri Lange, Jan Isaksen and participants at the REPOA Annual Workshop 2016 for useful comments.

1. INTRODUCTION

The large natural gas discoveries recently made offshore the southern coast of Tanzania have triggered substantial economic and political activities concerning the management of the potential benefits. Similar to most resource rich countries, Tanzania decided to develop a local content policy (LCP) aimed at making gas resources beneficial to all citizens and contribute to the development of the country. The main objectives are to ensure that more Tanzanians are employed in the petroleum sector and that local companies become suppliers to this industry (GoT 2014a).

Local content requirements are considered to be among the most important tools for extracting additional benefits to local communities from foreign investments in the extractive sectors and have been in use in most carbon rich countries (Davies and Ellis 2007 and Tordo et al 2013, see also Kjær 2013, Ovadia, 2016.). However, LCPs are controversial as they may entail a redistribution of benefits that often trigger rent seeking, corruption and non-productive lobbying (Hansen et al. 2015, Kolstad and Kinyondo 2015). Hansen et al. (2015) finds that a reason for the poor performance of LCPs in Tanzania, Uganda and Mozambique is that the ruling elites use local content contracts to build domestic alliances as opposed to maximizing the economic benefits.

The management of the LCP processes is made even more challenging by the sometimes opposing interests of international and domestic enterprises. One of the key LCPs, measures to require investors to purchase local products, is prohibited under the current World Trade Organization (WTO) Agreement on Trade-Related Investment Measures (TRIMS).¹ There has been a huge campaign in the WTO by many developed countries to ban most types of LCPs as they are seen to counteract their own interests. Therefore, many bilateral donors and multinational development institutions at the forefront of supporting economic policy development in poor countries are, at the same time, reluctant to support LCPs.

The implementation of LCPs can also be challenging. Successful countries have also experienced many failures (Bråthen et al. 2007). In addition, there are inherent difficulties with LCPs aiming to bring developing country labor and companies into the high-tech petroleum business (Tordo et al. 2013). The high level of skills, knowledge and technology required poses a barrier that is sometimes insurmountable in the relevant project period. This mismatch can be hard to comprehend for parties outside the petroleum value chain. The challenges and complexities underline the need for a thorough consultative processes in order to manage expectations about what can possibly be achieved through the LCP.

With such a demanding starting point for LCP, it is important for a government to manage the policy processes well and to prepare for effective implementation. One potentially important tool is to engage in a thorough, transparent consultative process with stakeholders – for several reasons. First, an in-depth consultation process will add to the knowledge base of the decision makers and could ensure that divergent views and positions are made public. Second, consultation can be an effective approach for the government to communicate with stakeholders, to inform them about plans and requirements, as well as to manage expectations. Openness and transparency is considered an important tool for avoiding corruption and favoritism. Finally, a proper consultation process can be used to create a dialogue that may provide a platform for a broader mutual understanding among stakeholders regarding all of the challenges involved in the employment of such policies. This communication may, in turn, build trust and reduce both tension as well as overall conflicts.

The purpose of this paper is to assess the process towards the development of a new LCP in Tanzania and map the various stakeholder views concerning which policies should

1 According to WTO “a local content requirement imposed in a non-discriminatory manner on domestic and foreign enterprises is inconsistent with the TRIMs Agreement because it involves discriminatory treatment of imported products in favor of domestic products. The fact that there is no discrimination between domestic and foreign investors in the imposition of the requirement is irrelevant under the TRIMs Agreement.” For further details, see https://www.wto.org/english/tratop_e/invest_e/invest_info_e.htm

be promoted and which should not be. Through a snowballing process, we identified institutions with a direct interest in the development of the petroleum sector and conducted interviews with representatives that were believed to be the most informed about the LCP process. We interviewed government officials responsible for the LCP process, the main international oil companies (IOCs) operating in Tanzania, the state corporation through which the Ministry of Energy and Minerals implements its petroleum exploration and development policies (Tanzania Petroleum Development Corporation – TPDC), the donors that have commercial interests in the sector and academic institutions and NGOs. We assess the degree to which these stakeholders have been included in the decision-making process and, more generally, to what extent the Tanzanian government has established platforms for consultation with relevant stakeholders.

A large majority of stakeholders to the emerging petroleum sector in Tanzania are supportive of local content requirements

We find that a large majority of stakeholders to the emerging petroleum sector in Tanzania are supportive of local content requirements, irrespective of their institutional affiliation. There is a consensus among academics, NGOs, government institutions, donors and the international oil companies (IOCs) about the usefulness of LCPs in Tanzania as a means of distributing the benefits more evenly throughout the population, particularly to stimulate employment generation for the local population. However, we find a high degree of distrust among the stakeholders that ultimately shapes their perceptions of what types of LCPs should be developed. Among domestic stakeholders, many hold the view that if strict and detailed requirements are not established, few members of the local population will benefit from the resource and, as a result, the petroleum companies will keep most of the surplus for themselves.

There is also a general distrust of local enterprises. Several stakeholders indicated that some types of local content requirements, especially the measures to demand IOCs to purchase inputs from domestic companies, would lead to more rent seeking and corruption. Many of the national stakeholders also distrust the motives of the multinational organizations, such as the World Bank and the UN, which are perceived not to work in Tanzania's interest. Finally, there is also a great deal of suspicion concerning the government's will and ability to implement the LCP. The Government is perceived to be both ineffective in implementation as well as corrupt.

We find that the stakeholders could have provided substantial and important inputs to the development of the LCP. The issues addressed clearly warrant a thorough national debate about the LCPs design. However, such a debate has been impeded by the absence of a government led transparent consultative process and very limited time for feedback. For example, the government allowed stakeholders less than two weeks to respond to the draft LCP, and only four days to provide comments on the Petroleum Bill, making it impossible for stakeholders to organize and provide well-founded feedback on key elements of the LCP. Most of the LCP activities such as roundtable discussions and seminars had to be organized by a few powerful stakeholders themselves, such as the international oil companies. The lack of inclusion has led to an absence of local ownership to the LCP, and has added to an overall sense of distrust. The stakeholders argued that this has reduced the likelihood of success as many institutions, which are vital to the LCP implementation, have been excluded from the process.

The next section describes the background and provides an overview of relevant LCP experiences from other countries. Section 3 presents our approach while Section 4 contains a discussion about the definitions of LCP in the Tanzanian context. Section 5 presents the stakeholders' views about local content and Section 6 elaborates on the consultative process and the stakeholders' involvement. Section 7 concludes.

2. BACKGROUND AND SELECTED LC EXPERIENCES

Background

The degree of local content in the production of a commodity can be defined by the share of local inputs (labor, capital, intermediate products) that are used in its production and the share of local ownership of the production companies (see Kolstad and Kinyondo 2015).² The aim of a local content policy is to increase the degree of local content in the various value chains – beyond what it would be in the absence of such policies. This typically involves increasing the share of nationals working in the extractive sector and increasing the participation of local companies in the supply chains. Normally, the overall purpose of LCPs is to ensure a more equitable distribution of the resource rents, i.e. that the local community will benefit more from the resource extraction than those directly involved within the sector.

In theory, the market could be used to ensure that resource extraction is done in the most efficient way with an optimal use of inputs. This could maximize the amount of revenue for the government, which could then be used for development purposes. Adding requirements to use local labor or companies would in this case induce a cost that would lower the revenues to the government. In other words, there could be alternative costs of applying LCPs.

Proponents of LCPs argue that including local labor and companies is an investment in the future rather than a cost; these workers and companies would be capacitated to generate higher income in the future due to the knowledge, skills or technology enhancement derived from participating in the sector.³ However, documenting whether the total pie becomes smaller or bigger because of an LCP is an inherently difficult task since there is no counterfactual to compare the actual trajectory with. Hence, the true cost of LCP is often unknown and assessing the experiences is left for qualitative scrutiny rather than rigorous quantitative analysis.

The extraction of natural resources can have enormous implications for many parts of an economy irrespective of any LCP, including government revenues, public expenditures, investments, salary levels, demand for labor and expertise. Moreover, the resource rents are usually much larger than the economic value of any local content generated (Tordo et al. 2013). Hence, government management of these incomes (taxation, expenditures, macro management, and so forth) is likely to play a more important role in poverty reduction and development than even the most effective local content requirements. In addition, there is likely a trade-off between the use of the resource revenues for LCPs and other welfare-enhancing and poverty-reducing investments (such as education, health, and infrastructure) that could be important (Kolstad and Kinyondo 2015).

Internationally, LCPs have changed significantly over time (Tordo et al. 2013). In the 1970s, the focus was on creating backward links through transfers of technology that provided new inputs to local industries, generating value-added in domestic supply sectors, creating local employment opportunities, and increasing local ownership and control. Currently, there is a much stronger focus on creating forward links through facilitating domestic processing before exporting. Examples include the use of natural gas in fertilizer production, the development of petroleum refineries, and the domestic cutting and processing of diamonds.

The extraction of natural resources can have enormous implications for many parts of an economy irrespective of any LCP

2 There is a wide span of LC definitions. Tordo et al. (2013) proposes a definition of the concept as the share of employment—or of sales to the sector—locally supplied at each stage of the value chain. Others use production related definitions such as the share of domestic inputs (Belderbos and Sleuwaegen 1997; Grossman 1981; Qiu and Tao 2001), or the inclusion of local companies in production (Vaaland et al. 2012).

3 Building domestic companies through their participation in the extractive sector can contribute to the development of these companies into more advanced entities that can, in the future, engage in highly productive activities outside of this sector. The argument is thus that the establishment of a stronger local industry now will generate larger future flows that will compensate for the lower current revenue flows.

Overview of LCP experiences

Based on a survey of LCP experiences in 48 countries, Tordo et al. (2013) provide a summary of the main factors for consideration in efforts to stimulate local economies. First, they find that it is important to maintain consistency between LCPs and other economic development policies. LCPs are embedded in a range of other policies, and all these policies must pull in the same direction if they are to be effective. Policies to improve education, health services, and infrastructure may well be an important part of attracting petroleum companies' additional onshore upstream and downstream investments (Bråthen et al. 2007).

There is usually a rationale for LCPs to address market inefficiencies and ensure competition. The petroleum industry is characterized by strong global supplier chains with limited entry points for companies outside of the chain. A previous relationship with successful delivery is often a precondition for future contracts. In addition, local suppliers may be barred because contracts are too large or lump together too many different components or because of information asymmetries. The extractive sector may also give rise to natural monopolies, such as in the distribution of natural gas through pipelines. Moreover, Tordo et al. (2013) find that both extractive companies and governments sometimes have a tendency to shelter preferred companies from competition. In developing countries, the political and business elite may use these structures to strengthen their power base. Stimulating competition in LCP development is therefore an important area for both efficiency reasons and for allowing a broader segment of the private sector to be involved in these opportunities.

Another important aspect of LCP is the promotion of technology sharing and the opportunity to learn from others. There may be great potential for domestic companies to learn from the extractive sector. Tordo et al. (2013) suggest that stimulating spillovers may be important not only for local companies that provide supplies to the extractive industry, but also for the local industries' ability to develop in other directions. The high level of technological complexity and its use of specialized inputs and knowledge equips these companies with tools that can also be used in other industries. This transferability of skills can be seen in Norway. For example, when the petroleum sector is scaling down, the country's laid-off employees can transfer their skillsets to almost any other industry branch and also to the public sector (NOU 2016).

In order to qualify nationals for the jobs in the value chain, skills development must be a cornerstone of LCPs. Shortages of qualified employees are a key obstacle for generating local content in almost all natural resources-producing countries (Tordo et al. 2013). The more advanced the requirements are, the more dire the skills gap usually is. Education and skills enhancement at all levels are crucial in most countries' LCPs. Knowledge transfer between companies is also important, and cluster development and regional trade have been used to promote such spillovers. Research suggests that clusters may be important for innovation and technology transfer. Many LCPs build on this and use geographical and sectoral clusters to accelerate the development of local companies.

Tordo et al. (2013) also find that, in many cases, there has been a strong temptation by governments to introduce excessive local content requirements. Since the government does not necessarily identify the cost of these requirements, and it may be believed that the extraction companies bear the full costs, it can be tempting to impose heavy-handed LCPs to gain popularity in the electorate. Moreover, it may be challenging to identify the true costs of the imposed requirements.

Finally, it is important to keep the administration of the LCPs simple and transparent and have built-in mechanisms to prevent corruption. The costs of complying with complex requirements may be high and may in turn make it harder to detect corruption – especially if transparency is low. The political economy in countries where rent seeking and corruption play a large role should always be considered when deciding whether to engage in LCP development. It is important to incorporate measures that take into account the fact that in natural resource extraction, corruption and rent seeking are highly prevalent (Sala-i-Martin and Subramanian 2003). Local content requirements are easily adapted to the needs of rent seekers and can also make it easier to conceal corrupt practices. Moreover, LCPs can be used strategically by multinational corporations, which in turn facilitate patronage problems in resource rich countries and exacerbate the resource curse (Wiig and Kolstad 2010).

In many cases, there has been a strong temptation by governments to introduce excessive local content requirements

Norwegian experiences

In Tanzania's process of developing the LCP, we often find references to the Norwegian experiences of actively implementing LCPs. We therefore pay particular attention to how Norway has attempted to increase local content in their petroleum industry since its conception in the early 1960s. The main aim has continuously been to get as much local content in manufacturing as possible (Bråthen et al. 2007).

For Norway, the essential objective was to bring the petroleum industry onshore, i.e. to require that as much activity as possible was moved from the North Sea where the resource was located and onto the mainland. The crucial decision was that the petroleum would be transported in pipes from the North Sea and onto the Norwegian main land for processing. It should be noted that offshore solutions where petroleum is transported in pipes directly from the North Sea to the customer in the EU would incur minimal local content gains as there would be no activity on the main land. Such offshore solutions have been actively discouraged in Norway.

It is generally considered a very challenging task to create local content from the petroleum industry. The likelihood of experiencing failed interventions is quite high, even in more advanced countries. Norway's success with LCPs is undeniable, as can be seen by the establishment of Statoil and the creation of a large and geographically dispersed oil supply sector. However, it is equally undeniable that their experience with LCPs also includes a number of failures, such as the very costly Mongstad refinery, and disappointments, such as the lack of local content created from the Tjeldbergodden plant and severe pollution from the Rafsnes plant, as well as its large economic losses (Bråthen et al. 2007).

Natural resource extraction consists of highly complex operations with advanced processes and specialized inputs that make the development of backward and forward linkages into a local underdeveloped economy challenging. Hence, the abilities of the existing local private sector and their potential for adapting to the requirements can be an important factor in determining how much local content is created (Bråthen et al. 2007). In the 1960s and 1970s, Norwegian companies had almost no experience with the petroleum sector. Nevertheless, a factor in Norway's success was that it was already developed when the oil industry started. The technical level of operations in the private sector was already quite high.

The skills of the workforce is another important factor influencing local content. In Norway, the workforce was relatively educated with experiences in relatively advanced technical industries such as shipbuilding, hydropower, and power-intensive industries (Isaksen 2014). Many of these workers were available for the emerging industries, and upgrading their skills to meet the new requirements in the petroleum sector was surmountable. The existence of relatively advanced Norwegian companies in the aforementioned industries was also an important factor. The rise of the Norwegian petroleum supply industry emerged from an existing manufacturing industry base.

Several policies have contributed to the success of the Norwegian LCPs. The initial framework determined that the oil and gas industry should be taken primarily onshore in Norway and that exploration, development, and production should be undertaken domestically. In a 1973 white paper (No. 30, 1973-74), Norway described the requirements for localizing the petroleum supply industry and specified in detail where in the country the industry was to be established. The aim was to spread the benefits, in particular jobs, across the country.

Localizing the operation offices of petroleum companies was seen as an important step in establishing a direct link between the purchasers and local industries (Bråthen et al. 2007). This would, in turn, increase local content. Nevertheless, high costs and loss of economies of scale led petroleum companies to oppose this policy.

The high oil sector profits in the initial stages eventually led to a situation where there was a general acceptance that costly LCPs could be justified by the argument in favor of distributing benefits among the population. However, when oil prices declined abruptly in 1987, profitability was substantially reduced with the consequence that the LCPs were sidetracked while the interests of the oil companies and their profitability were prioritized (ibid.). More recently in Norway, there seems to have been a compromise in practice between profitability and local content requirements. However, as Tordo et al. (2013) points

Norway's success with LCPs is undeniable

out, differences in profitability in various industries and countries lead to very different environments for the introduction of LCPs.

In the initial phases, the Norwegian supply policy maintained that only domestic companies were allowed to supply the national petroleum sector (Bråthen et al. 2007). The concrete aim of this policy was to ensure that the enormous investments in the petroleum industry led to the creation of jobs onshore in Norway. Nevertheless, in the early phase there were no such companies in Norway and the oil companies had to be supplied by international companies. The large efforts to establish university degrees in petroleum related studies did subsequently mitigate the situation and ultimately produced educated Norwegians suitable for the sector. This also contributed to the development of the technical competencies of the involved universities and other educational institutions.

At a later stage, it became common in Norway to include requirements for using local employees in various contracts, to require oil companies to split up supply contracts into smaller parts suitable for local companies, and to train local companies in the requirements necessary for delivering in accordance with accepted standards. Studies of the Norwegian experience show that during the mid-1980s – 20 years after the first licenses for exploration were granted in 1965 – there was still a negative relationship between the complexity of the tasks in onshore investments and the share delivered by local companies (Baardsen and Vatne, 1990). More advanced tasks were usually carried out by international companies because these organizations were the only ones that had the knowledge and skills to deliver according to the requirements. Current legislation rules out this possibility and all contracts are subject to international competitive bidding.

There is also some evidence that the entry of petroleum companies into Norway has had a positive influence on infrastructure and public services. Because these companies brought with them highly skilled employees, they demanded quality services and infrastructure. In Norway, collaboration between the petroleum companies and local authorities led to improvements of services in areas such as education and health, and in infrastructure such as roads, roads safety, and airports (ibid.).



3. METHODOLOGY

The local content policy framework and timeline

We followed the process from when the first draft of the LCP (Draft One LCP)⁴ was published in May 2014 (GoT 2014a) by the Ministry of Energy and Minerals (MEM). In a press release on May 7th 2014, the MEM invited all stakeholders to provide inputs and suggestions to the draft and asked for comments to be submitted no later than May 20th (GoT 2014b). This gave stakeholders 13 days to organize, discuss and respond.

The Government took several initiatives to implement the LC requirements that were outlined in the Draft One LCP. Most importantly, the Petroleum Act, which contains several LC clauses both on the use of local labor and procurement restrictions, was passed by the Parliament of Tanzania in July 2015 and was assented to by the President in December 2015. The act was passed by Parliament under a “certificate of urgency” clause, which allows for making rapid decisions on enactment with a minimum of consultations if the situation so dictates (GoT 2015).⁵ In the interviews, several stakeholders expressed concern over the urgency of the decision-making and stated that it was generally considered a controversial way of enacting “even according to Tanzanian standards.”

Another key initiative was the Non-Citizens Act, which regulates the employment of foreign citizens (GoT 2014c). The act contains important elements for the Government’s LC strategies such as stringent conditions for foreigners’ work permits. One important requirement is that companies employing foreign workers are required to develop a succession plan, a stipulation that was also stated in the Draft One LCP (GoT 2014a, p.19). It is compulsory to prepare a plan for the replacement of the foreign worker with a local worker before the maximum total permitted period of stay in the country is expired (five to ten years). The succession plan must detail the knowledge and expertise transfer from the non-citizen to the citizen during the employment period and establish an effective training program to ensure that the citizens become capable to take over the duties of the non-citizens.

In addition, the Natural Gas Policy 2013 requests for an appropriate pricing structure that encourages economic use of the existing capacities in the natural gas value chain (GoT 2013). Another relevant initiative is the establishment of the Tanzania Petroleum Development Corporation (TPDC) as the national oil company, which is expected to become an instrument for enhanced local content in the sector. Moreover, it is stipulated that natural gas will be important in national energy production. In 2014, the government launched the 2014–2025 Electricity Supply Industry Reform Strategy and Roadmap aiming to increase electricity generation from gas-fired turbines ten-fold during the next decade (GoT 2014e).

Approach

Our main analytical approach has been to include stakeholders with a direct interest in the development of an LCP in the country. Through a snowballing approach, we contacted institutions and individuals that should have played a role in a consultation process on legislative adoption on local content. We interviewed government officials, representatives of the international oil companies (IOCs), local civil society organizations, educational institutions and private sector representatives. To supplement this, we interviewed representatives from the main donors involved in the LCP process, all of whom also had strong commercial interests in the natural gas sector in Tanzania. They included the United States of America, the European Union, the United Kingdom, Germany, Denmark and Norway.

4 While already passed by the Parliament, the final draft of LCP to date has not been made public by the government for reasons unbeknownst to the authors.

5 We refer to the Petroleum Act Bill Supplement of June 2015. The Parliament made several changes to this document and the final Petroleum Act that was assented to by the President late in 2015 contains several changes which are elaborated upon here: http://www.clydeco.com/uploads/Blogs/employment/CC008656_Tanzania_Petroleum_Act_2015_30-10-15_DOC2.pdf

We applied a semi-structured questionnaire allowing open-ended answers to guide the interviews. Hence, we used a qualitative data collection strategy, and conducted 36 formal interviews – in either Swahili or English depending on the preference of the stakeholder.⁶ Our first round of data collection was conducted in February 2015. In the second half of 2015, the LCP was finalized, the Petroleum Act passed and the national elections led to a change of government. We then conducted a new round of data collection in December 2015.

Each interview lasted between one and two hours depending on the length of feedback provided by the stakeholder. In addition to these formal interviews, we supplemented our understanding of the situation and validated our findings through numerous informal interviews and various workshop presentations of the material to selected stakeholders.⁷ Moreover, the brief literature review presented in Section 3 was used to understand the context and to develop hypotheses and research questions for our study.

From the start, our objective was not to provide a representative picture of the views of all stakeholders to this process in Tanzania. For example, we do not cover ordinary people's perspectives. Our focus was on identifying the respondents who would be best informed about what happened during the legislative process. Respondents who are more knowledgeable in this area are also likely to be more informed in terms of the relevant policy issues discussed.

⁶ Since there are several politically sensitive issues surrounding the LCP process, we have chosen to anonymize the responses of the individuals. Thus, for the majority of our discussion, we only refer to generic groups, such as IOCs, donors, government officials etc.

⁷ For example, we have informally discussed the issues with government officials, with representatives of TPDC and academia and we presented parts of our findings at the REPOA Annual Research Workshops in 2015 and 2016 where many of the stakeholders engaged in discussions about the LCP participated.

4. DEFINITIONS AND PERCEPTIONS OF LC: CONFLICTING INTERPRETATIONS

Policy development dialogue and processes may benefit from the development of a mutual understanding among the stakeholders of the key concepts and definitions. A main concept in the LCPs discourse is what is defined as “local” and what is defined as “foreign”. Whereas the definition of local is straightforward when it comes to labor in the regulatory framework (i.e. Tanzanian Nationals), there are different definitions of what constitutes a local company. In the Draft One LCP, local businesses are defined as those who are

“...incorporated under the applicable laws of Tanzania and is wholly owned by Tanzanians or with at least 51% of shares owned by Tanzanian Nationals and is registered to offer goods or services in the oil and gas industry.” (GoT 2014a, p. iii)

However, in the Petroleum Bill, a local company is defined as a company that is

“...incorporated under the Companies Act, which is one hundred percent owned by a Tanzanian citizen or a company that is in a joint venture with a Tanzanian citizen or citizens whose participating share is not less than fifteen percent.” (GoT 2015, p. 109)

There is hence a huge discrepancy concerning the definition of a local company. Notably, in the Draft One LCP, Tanzanian Nationals have to own at least 51% of the company in order to be classified as a local company, while in the Petroleum Bill it is sufficient to have at least 15% national ownership to achieve the same classification. Judicially, the act will be binding; not the policy document. Moreover, later enactments traditionally preside over earlier ones, so for all practical purposes the Petroleum Act will be the prevailing document.

The definitions of LC in the two key documents are quite similar. The Petroleum Bill states that:

“local content means the quantum of composite value added to, or created in, the economy of Tanzania through deliberate utilization of Tanzanian human and material resources and services in the petroleum operations in order to stimulate the development of capabilities indigenous of Tanzania and to encourage local investment and participation” (GoT 2015, p. 19).

The Draft One LCP focuses on the value added by the use and development of Tanzanian labor, capital and companies, but also concentrates on potential research capabilities:

“The added value brought to the country in the activities of the oil and gas industry in the United Republic of Tanzania through the participation and development of local Tanzanians and local businesses through national labour, technology, goods, services, capital and research capability.” (GoT 2014a 2014, p.iii)

Different stakeholders in Tanzania have deviating understandings of what LC entails. Many of the stakeholders had never heard of any of the standard definitions. Several donors, however, such as the European Union representatives, referred to the definition in the Draft One LCP and had been using that definition in their interactions with the Tanzanian Government. Similarly, the IOCs had a very precise understanding of LC: their definition followed the Petroleum Bill definition. Initially, during the Draft One LCP phase, they adhered to the definition in that document. Later, when the Petroleum Bill was passed by the Parliament, they changed their definitions to be in line with the definitions used there.

There is a clear logic to how the IOC’s relate to the definitions. These companies are obliged to implement the LC requirements once these are spelt out in binding regulations or contracts. Hence, at any point in time, they abide by the current version of the definitions. What matters in the end for the IOCs is, however, the definition that is binding for their own actions. This is best exemplified by the Draft One LCP: the definitions in this policy are no

Local
|
Foreign

Different stakeholders
in Tanzania
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longer guiding the IOCs since the more recent Petroleum Bill contains newer definitions that are intended to be made binding through regulation. Therefore, in our last round of interviews, the IOCs focused solely on the Petroleum Act and the regulation that was likely to be derived from that act.

Most of our other respondents have a general understanding that LC has something to do with local participation in the sector, but no clear definition is provided. Representatives from these organizations perceive local content as a situation whereby Tanzanian Nationals are involved in all stages in the sector (from pre-production to the marketing stage). It was often unclear whether stakeholders knew the difference between LCP, corporate social responsibility (CSR) and economic empowerment.⁸ Some stakeholders, including the MEM, seem to confuse LC with CSR and/or economic empowerment. Indeed, the Draft One LCP has a specific aim to make investors and contractors in the natural gas sector undertake locally prioritized community development programs (GoT 2014a, p. 25). These activities are not defined as local content, even under the definition in the same document.



Photo: flickr user isado, Creative Commons

8 While CSR is what companies voluntarily do in order to get social license to operate from relevant (local) communities, economic empowerment is what governments do to create an environment in which disadvantaged groups can get out of poverty cycles. LCP differs from the above two concepts in that it stipulates basic minimum local participation requirements that companies have to fulfill. The rationale is then that in the absence of the LCP, the companies would have less local participation. LCP could lead to increased economic empowerment, but also to decreased economic empowerment.

5. STAKEHOLDERS' VIEWS ABOUT LOCAL CONTENT POLICIES IN TANZANIA

LCP; an important tool for sharing the benefits by generating jobs and business

Across all categories of stakeholders, our respondents stated that a LCP could be an important tool in Tanzania. They maintained that such a policy could be instrumental in creating more jobs for Tanzanians in the petroleum sector, and that a LCP could be a powerful engine used to foster employment more broadly – i.e., also in other sectors. Moreover, a LCP could help domestic companies receive contracts, which in turn could lead to more domestic resource utilization and subsequently add to employment generation.

Many of the stakeholders indicated that job creation for Tanzanians should be the most important aim of the LCP. In this regard, it was stated, the Government should develop a direct link between the local institutions, colleges and universities and the gas sector. It was also pointed out that skills transfer and building local capacity take time and that the LCP would need to maintain a long-term perspective in regard to these objectives. One of the international organizations, for example, stated that “A gradual and strategic build-up of local capacity is usually the most effective way to develop sustainable businesses”.

One respondent also suggested that companies be presented with incentives to provide succession plans. Swala Energy was identified as a concrete example of an organization that embraced such a strategy. The company acted as a model for those countries seeking skills enhancement, financing for skills development through a 6 percent levy and setting aside about USD 250,000 a year for training and mentorship of local staff in various skills related to energy as part of their skills transfer program. Their intention was to have a Tanzania CEO by the end of 2015. However, to date, this ambition has yet to be fulfilled. This reflects the risks of having LC requirements that are too prescriptive, those which are devoid of capacity realities on the ground.

Some respondents also raised concerns over the skill-level of the jobs that would be created for Tanzanians in the petroleum sector. One respondent used the experiences in Angola as an example of when the IOCs met the employment targets in terms of percentage share of locally hired employees, but the locals only got low-paid low-skilled positions. Others also emphasized the importance of skills creation in making the workforce compatible with the job requirements in the sector. The development of apprenticeship programs was mentioned as one concrete step in this direction.

In addition to job creation, the respondents stated that the aim of the LCP should be to ensure that local companies were given the opportunity to participate in the petroleum sector. These stakeholders recommended establishing requirements that force the IOCs to use local goods and services in their operations. One respondent also pointed out that LC could benefit the IOCs and referred to examples where British Gas (BG) had already undertaken a number of local purchases in Tanzania. BG's experiences so far suggests that local purchases are cheaper than international purchases.

Nevertheless, the respondents acknowledged the challenges involved in achieving increased local job creation and expanding local companies. One respondent, for example, stated that “How do you support locals to get to that standard that allows them to supply goods and services in the sector?” The respondent argued that even if one would establish requirements for purchases of locally produced goods and services, these would have no effect if the local companies could not deliver in accordance with the standards. One stakeholder suggested that the government could provide incentives to IOCs to support capacity building of local companies.

Suspicion and distrust

Despite the positive attitudes towards LCP in Tanzania, we found a high degree of suspicion and distrust among the stakeholders with respect to the motives of the main agents – across four main dimensions. *First*, most of the domestic stakeholders suspected that the international companies would be the sole beneficiaries of the resources with little left for local companies and the local population. They maintained that a LCP could be a potential instrument used for holding the companies accountable. For example, one respondent argued that “investors do not come to our country to enrich us but themselves and thus

without the LCP they will get away with it". The stakeholders generally stated that such policies could provide useful guidelines for directing the petroleum companies towards sharing the benefits with Tanzanians. However, they also maintained that strictly enforced legislation is necessary to ensure that the international companies adhere to the sharing approach by specifying "what should be done, when and by whom". As one respondent put it, a formal and enacted LCP is important as "it sends a message that LC should be adhered to".

Some local stakeholders showed a particularly deep distrust against foreign petroleum companies

Some local stakeholders showed a particularly deep distrust against foreign petroleum companies and feared that little would be left to Tanzanians unless these companies were forced to comply with non-negotiable terms. One claimed that a LCP would be "useless" as it would only spell out "how our resources can be shared by foreign entities, something that should not be the case since Tanzania owns the resource and therefore should determine how it should be used." According to this respondent, "LCP glorifies investor and not locals by taking power from locals to investor and then going back to the investor to ask them for some concessions".

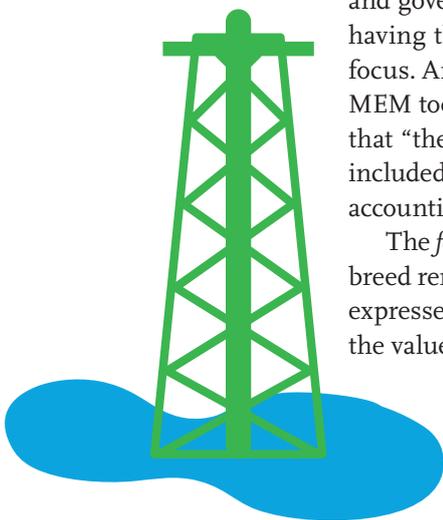
One should note, however, that much of the distrust concerning the IOCs results from the negative mining experiences in Tanzania. There is a widespread view among Tanzanians that international mining companies have for the past two decades extracted huge amounts of valuable minerals without providing any benefits to Tanzania (Shekighenda and Peter 2016).

Second, some local stakeholders expressed distrust in multinational organizations such as the UN and the World Bank. For example, one respondent stated that "Issues like Model Production Agreements are propagated by the UN Commission on International Trade and aren't meant to benefit us". Another example mentioned was that of the World Bank. This institution, allegedly against Tanzania's interests, recommended that the country not develop local content policies in relation to the mining industry that boomed from the late 1990s (see Lange and Kinyondo 2016).

A *third* dimension of distrust that was articulated by international and local stakeholders was their lack of confidence in the Tanzanian Government with respect to their political will and ability to implement the LCP in an effective and fair way. They maintained that if there are no checks and balances, and if the LCP is left entirely to the government to handle, then the likelihood of the policy to generate additional corruption would be high. In addition, they held the view that there could be a high risk for mismanagement due to the lack of institutional capacity necessary to implement the policy. Lack of government commitments, lack of clear and proper regulations and bad politics could undermine the policy. Many also mentioned that stakeholders outside the government should be assigned a role to prevent corruption.

One respondent said that the strong ownership MEM had over the LCP negatively affected the inclusion of other relevant ministries and sectors in the education strategy that intended to produce qualified candidates for the sector. The main problem so far was that MEM had been ring fencing the LCP against the influence or inputs from other ministries and government entities. It was emphasized that this occurred despite the overall aim of having the LCP act as a multi-sectoral and multi-ministerial tool used to avoid a narrow focus. An example given to illustrate the negative consequences of the LCP being a narrow MEM tool concerned capacity building and skills enhancement. One respondent claimed that "the Government has mainly focused on producing geologists while it should have included other relevant disciplines such as economics, finance, law, public administration, accounting, etc."

The *fourth* aspect of distrust arises from the fear that if not properly managed, LCP could breed rent-seeking and corruptive behavior in the local private sector. Several stakeholders expressed concerns over the strict LC requirements that force international companies in the value chain to purchase goods and services from Tanzanian companies or Tanzanian



companies in joint ventures with international companies.⁹ They claimed that such requirements could create intermediaries that would engage in rent seeking through mechanisms such as the creation of shell companies with no other functions than to extract rents.¹⁰ Similar distrust was not articulated against the requirements to employ Tanzanian nationals in the value chain.

Flexibility versus inflexibility

The distrust seems to have triggered several local stakeholders to adhere to a hardline approach of making IOCs comply with local content requirements. This can be illustrated by the following statement: “What we need is not Washington’s production sharing models but dialogue based on inflexible principles”. One stakeholder stated that “What Tanzania needs is to set out conditions which are non-negotiable.”, while another respondent said that “You cannot have a dialogue after you have formulated some kind of (...) LCP”. One stakeholder even suggested to tie the requirements into the constitution in order to avoid slippage: “What we need are rules of engagement which aren’t subject to negotiations because they are constitutional.”

“What we need are rules of engagement which aren’t subject to negotiations because they are constitutional.”

The advocates for strict requirements and their implementation mirrored the distrust noted above. The implied assumption here is that flexibility could provide loopholes that might help IOC avoid compliance. Many of those who were skeptical of the IOCs intentions also argued in favor of inflexible requirements. Some respondents even felt that if Tanzanians did not get their share, there could be dangerous repercussions; if Tanzanians did not benefit from the resources, instability within the country would ensue.

Several other stakeholders, particularly international, made the point that an important feature of such a policy would be to incorporate flexibility. They argued that because of the volatility in gas prices in the sector, it could be counterproductive to establish non-negotiable requirements. These stakeholders regarded the discussions on how low petroleum prices could discourage new resource extraction and related investments. They argued that the LCP should be progressive with profitability, i.e. have more requirements when profits are higher. In addition, some of them pointed out that there would be some policies that could be implemented immediately and others that would take longer. Therefore, they argued, a LCP should be able to deal with issues on a case-by-case basis. For example, generating downstream activities such as power plants and gas for final users in industry and households are relatively simple to implement after an LNG plant is established. On the other hand, upstream participation, such as the production of advanced inputs to the supply industry, could take a much longer time to develop and involve much riskier engagement.

Several stakeholders argued that Tanzania was still in a nascent stage and that, because of this, it was important not to scare away investors but rather to offer them some flexibility in LCP implementation. Then, at a later

9 The Petroleum Act specifies, in para 220, that “(1) A licence holder, contractors and subcontractors shall give preference to goods which are produced or available in Tanzania and services which are rendered by Tanzanian citizens and or Local Companies. (2) Where goods and services required by the contactor or licence holder are not available in Tanzania, such goods shall be provided by a company which has entered into a joint venture with a local company.” (GoT 2015, p. 108).

10 These stakeholders were not aware of the exact specification of this requirement in the LCP Draft One.

stage when the sector had matured, tighter and less flexible LCPs could be introduced. They maintained that a LCP should not prescribe exact targets as they could hamper companies from finding the best solutions. The LCP implementation should be a collaborative process rather than a process that holds IOCs accountable to pre-specified concrete and sometimes unrealistic targets, or some targets that were based on incomplete information and uncertain scenarios.

Most of the respondents stated that transparency in LC requirements and achievements would be important. One respondent argued that while rigidity in requirements could be counterproductive, flexibility should be accompanied with a high degree of transparency so that everyone could monitor and understand the progress – or lack of progress – in actual local content development. It was argued that if people learned about the reasons for the choices made by the involved parties, then they would also accept them.

Views about the Draft One LCP

The respondents from MEM and the government agencies considered the Draft One LCP to be an excellent document. However, despite the large share of positive general views about the usefulness of an LCP in Tanzania, many respondents were skeptical about some of the main issues addressed in the Draft One LCP. Skepticism ranged from a few individuals holding the view that developing a LCP was wrong in the first place, to those who had an array of comments about how to make the proposed LCP a more effective tool. The former group claimed that such policies are the wrong approach as they “water down rights of ownership by locals by assuming that investors are philanthropists who are givers of opportunities to locals”. This, they argued, is just another way of adopting principles of giving concessions to locals on something that is already theirs to begin with.

One stakeholder argued that providing fiscal incentives to encourage technological and skill transfers would not be effective in achieving the long term objectives set out by the LCP. It was argued that according to experience an improved business environment rather than incentive has the biggest socio-economic impact. The government should therefore direct more of their efforts towards improvements in areas such as access to electricity, good infrastructure and lower labor costs.

Another group of skeptical stakeholders were mainly concerned with the large number of targets and prescriptions found in the drafted policy document. They described these as “red flags” that would make LCP not only mechanical, but self-defeating since the IOCs could be forced to “play the game of numbers rather than strive to build local capacities”. In addition, they argued that this LCP is unproductive because it lacks a clear strategy of how the Government intends to deal with “improving local capacities, crowding out of other sectors by oil and gas sector, employment issues etc.”.

“You must be realistic with targets otherwise you will kick away serious companies and only attract shell companies due to unrealistic targets”

The majority of respondents had reservations on LCP having “too much prescription targets” since it would “invite cheating”. Hence, there was a concern that the LCP could encourage rent seeking. As one respondent put it, “you must be realistic with targets otherwise you will kick away serious companies and only attract shell companies due to unrealistic targets”. Several respondents made similar statements. One stakeholder, for example, said that the LCP “should not be based on the issue of how many Tanzanians and how many foreigners are in the sector, rather how skills transfer to locals is being practiced”.

The capacity building and skills enhancement under the LCP also refers to the limited and non-renewable work permits for foreign experts mentioned in the Draft One document. Given the dearth of experts in Tanzania and the length of time required to develop relevant capacities, some stakeholders stated that limiting work permits might not be so wise. The best way to handle this could be to ask IOCs to submit detailed succession plans that have realistic timelines. Representatives from one organization suggested that “Some tax incentives for firms to train local workers could also be considered as a complementary measure / policy tool”.

What could prevent the LCP from being successful?

We asked the stakeholders what could prevent the LCP’s success, in regards to both design and implementation issues. In addition to the abovementioned worries about corruption, rent-seeking, poor implementation capacity and international capture of the surplus, some

stakeholders feared that many citizens had unrealistic expectations of the benefits that they would receive in the future from the petroleum sector, and that this could bring instability to the country when confronted with reality. Sharing this concern, one stakeholder mentioned that there were no efforts to raise community awareness or to enhance acceptance in the local communities with respect to oil and gas projects. Similarly, it was pointed out that the omission of stakeholders in the preparation and implementation of the policy contributed to the lack of awareness and knowledge about the issues.

Several stakeholders stated that Tanzanian companies have limited professional capabilities and that they would not be able to deliver in accordance with the demand from the IOCs, due to the “lack of quality”. This was mentioned as a main hindrance. It was emphasized that the Small and Medium Enterprise (SME) and farming sectors suffered from low expertise and skills, which disqualify them from the high-end markets that would be generated by the gas sector.

Several stakeholders believed that the lack of a capable, prepared environment would prevent local companies from being able to compete with international companies. Examples mentioned included a lack of relevant skills among Tanzanian workers and their “lack of preparedness” for such work, unreliable energy supply to the local industry, uncertainty about the terms of the policies etc.

Another issue mentioned was the unpredictability of the government. This is exemplified by the case of Botswana where, rather than adhering to the original agreement of processing in London, the government renegotiated with De Beers to process diamond locally in Gaborone. After an investment is made in a given country, an international company is locked into a relationship with that government. If the government is unpredictable, the international company will avoid investing in the country.

Some of the stakeholders also mentioned the challenge of declining oil and gas prices. Echoing the Norwegian experience of low prices leading to less local content, it was said that the low gas price could jeopardize additional local content requirements – and actually threaten the whole offshore gas extraction. At some point, it was argued, the low gas prices would render the LNG factory unprofitable and then the IOCs would not make the investment, and the extraction of the big gas fields would not take place.

Finally, one of the respondents stated that by far the largest share of the benefits comes from fiscal revenues and not from the benefits of the LCP. With this in mind, it seems that fiscal revenue generation must be prioritized. This would imply that LCP requirements could be dropped if they conflicted with maintaining the large revenue flows.

How should the LCP implementation be monitored?

We also asked the stakeholders whether they had any views on how the implementation of the LCP should be monitored.¹¹ Several stakeholders argued that there should be an independent body that monitors the implementation of the LCP and actively publishes and disseminates findings to ensure transparency. However, one respondent was hesitant in regards to the creation of a new body as the government could use existing bodies and stated that the only important issue to consider was the clarification of the various responsibilities for implementation of the LCP. Another respondent said that such a body already existed, referring to the National LC Committee.¹² The only problem with this organization, the respondent stated, was that it did not include IOC’s, their umbrella body the Oil and Gas Association of Tanzania (OGAT) and TPSF. Others argued that the implementation should be monitored by a more neutral body composed of all key stakeholders.

11 It was clear for most that before implementation, an act would need to be passed by the Parliament and detailed regulations would then have to be derived from the act. There was a general understanding that the LCP, just like any other policy, only states the government’s intentions to achieve some general aims. The concrete regulations would then, in turn, require monitoring in order to ensure compliance.

12 The Draft One LCP envisages the establishment of a national committee whose role shall be to coordinate and oversee the complete implementation of the policy.

Several stakeholders stated that Tanzanian companies have limited professional capabilities

Several stakeholders proposed the development of a detailed, strict and transparent monitoring and enforcement mechanism in order to ensure compliance. This, together with the requirement of having a monitoring agency independent of the government, reflected the skepticism against the motives of the involved parties as noted above. Typical statements were made about the legal framework, such as “What is required is to have adequate laws and regulations, good legal institutions and a strong bureaucratic and political will to ensure IOC’s fulfill the requirements.” Some stated that the Government needs a strong and clear operation model that clarifies what should be done, when, where, how and by whom.

“What is required is to have adequate laws and regulations, good legal institutions and a strong bureaucratic and political will to ensure IOC’s fulfill the requirements.”

6. CONSULTATIONS AND STAKEHOLDERS' INVOLVEMENT

The previous section indicates that the stakeholders had many substantial and perhaps important opinions concerning the development of the LCP. We therefore asked the respondents how they had been involved in the policy process and how the Government had conducted the stakeholder consultations.

No Government consultation process

The general view across almost all stakeholders was that the Government had not organized a proper consultative process regarding the formulation of the LCP or any efforts involving its implementation, such as the inclusion of LCP topics into the Petroleum Act. When asked, most of the respondents did not consider themselves stakeholders in the process, despite a clear interest in the policy and its likely outcomes. The majority of the respondents stated that they should have been a stakeholder in the process, but that the Government did not involve them in any way. They argued that this omission was a major challenge to the LCP as the involvement of stakeholders would have created a sense of ownership of the policy and thus would have improved the chances of it becoming an effective and successfully implemented policy.

The majority of respondents stated that MEM was the main stakeholder of the LCP and that this was the reason for the lack of consultations. Several of the stakeholders interviewed claimed that the MEM had monopolized the LCP development process and that it had excluded other stakeholders, including other relevant ministries. One stakeholder argued that the MEM should not be a focal point for the LCP and that the responsibility should cut across all of the relevant ministries in order to facilitate broad consultation.¹³

One respondent indicated that foreign stakeholders had been heavily involved, stating that “the LCP development process was not inclusive enough...it was pretty much done by foreigners”. Most of the foreign respondents, however, rejected this suggestion and stated that they had not been very involved. In many of the interviews, Norway and NORAD were highlighted as the most influential stakeholders outside of the Government. It was stated that MEM frequently consulted with Norway when they felt the need for outside expertise and that MEM conducted a number of study tours to the country in order to learn from Norway’s experiences. In addition, Norway financed several activities in the petroleum sector with high visibility, such as the NORAD-REPOA workshop in Dar es Salaam in 2014, the international consultants involved in drafting the Petroleum Act, the SOGA program and a range of different studies relevant for local content development. So even if other stakeholders also financed similar activities, such as the EU, the World Bank and DFID financed studies¹⁴, it was perceived that Norway had a much greater influence over MEM than all of the other donors.¹⁵

13 Some of the respondents argued that the Ministry of Industry and Trade should be in the lead since it is responsible for most SME development and could hence be instrumental in getting the local SMEs to benefit from the petroleum sector.

14 For example, the EU financed (with DFID) an analysis completed by the the Competitive Industries and Innovation program of the World Bank regarding how the gas discoveries could be used to develop local industries with the aim of providing inputs to the development of the LCP. See also the study by Warner (2012) for the British High Commission.

15 As one respondent exclaimed; “The Norwegians are everywhere!”. During our work, we became aware of the enhanced role Norway played in LCP development and recognized the potential for a conflict of interest in our project. However, given the scope of our work and given that our aim to map the activities of the stakeholders does not entail any controversies regarding donors’ roles, we do not believe that there are any conflicts of interest found within this work.

“Never implement something that is not sanctioned by local intellectual minds”

Some of the main think-tanks of the country, such as the universities, were not invited for consultations nor were they asked to provide input on the policy.¹⁶ Respondents pointed out that omitting these intellectual hubs was a serious mistake for the success of the LCP since implementing the policy would rely on their involvement.¹⁷ As one respondent put it, “never implement something that is not sanctioned by local intellectual minds”. Moreover, excluding the local intellectuals was perceived as an invitation for the foreigners to secure their own interests and to ignore those who could provide suggestions of how the resource could benefit the Tanzanians. One stakeholder argued that “Lots of inputs to LCP are from the outside and their principles are meant to open us (Tanzania) up as markets e.g. procurement laws demanding advertising tenders internationally”.

The fact that many stakeholders stressed a need for a proper definition of LC in the Tanzanian context highlights the lack of inclusion that was prevalent throughout the process. Most of the stakeholders had not heard about the definition proposed in the Draft One LCP or the Petroleum Act.

Only a handful of institutions were invited by MEM to provide input on the LCP development. Moreover, a few of the respondents had provided input only after the Draft One LCP was published. However, the few stakeholders who confirmed that they had provided comments did not think that their input would influence the final LCP. The general perception among our respondents was that the government, specifically MEM, had already made up its mind over what the LCP should look like before consulting stakeholders. As one respondent said, “we submitted our comments almost a year ago but there has been no follow-up and therefore we do not know what’s next”. Another respondent claimed that, “the process was fairly inclusive” until they submitted their comments. After that, there was silence. Another respondent reported that “very little inputs were taken in at the first draft stage” and was disappointed that “recommendations on upstream activities were completely disregarded”.

Although the Government did not do much to ensure a broad consultative process, several stakeholders organized their own activities to inform their constituencies about the Draft One LCP and to discuss its content. Many of our respondents reported that they had attended several relevant events. Most of the events had been workshops, round table meetings or conferences organized by MEM, REPOA/NORAD, University of Dar Es Salaam and the World Bank through Uongozi Institute.¹⁸ In particular, the Uongozi Institute, the Tanzania Private Sector Foundation, the Revenue Watch Institute/Natural Resource Charter and the World Bank organized a series of roundtable discussions about LC relevant for Tanzanian stakeholders. The aim was to provide information about LCP experiences from relevant countries and to build an understanding of the opportunities, challenges and best practices in the sector.

Our respondents reported mixed feelings about these events, and addressed two main concerns. Firstly, while there was some useful information coming out of the sessions, there was a tendency to focus the debates on experiences from abroad, particularly those of Ghana, Nigeria and Norway. Stakeholders considered this to be somewhat useful, but some also pointed out that it should have been accompanied by the other leg – the experiences from Tanzania in other sectors, especially “other Tanzanian industries, such as mining”. This was considered important since relevant lessons could be extracted from other industries, and it was argued that mining and petroleum sectors faced similar institutional, infrastructural and resource challenges.

The second concern regarding the stakeholder-organized events was that of impartiality. Several respondents had the perception that some of these events held a hidden agenda

¹⁶ Nevertheless, we found that some individual academics had been consulted.

¹⁷ It is well recognized that the university sector is imperative to the skills enhancement necessary to enable Tanzanians to get jobs in the sector. See for example <http://www.dailynews.co.tz/index.php/home-news/45833-govt-seeks-norwegian-help-on-oil-gas-experts>

¹⁸ Local Content was a key theme at the REPOA's 20th Annual Research Workshop in March 2015.

and had the potential to be quite misleading. According to some respondents, one of the conferences seemed to have been organized “solely for the purposes of demonizing LCP”, and they felt that there was a clear purpose of making the Tanzanians reject such policies.

Lack of local ownership

The respondents were concerned about the lack of ownership to the LCP. Many respondents subscribed to versions of the following view: “LCP is not owned by stakeholders, but by MEM, something that is very wrong”. They argued that this was not a wise way to develop a new policy as other implementing institutions would have no ownership to it.

The stakeholders mentioned several institutions that should have been included in the ownership of the LCP. Since increased involvement of local labor in the petroleum sector is a key LCP aim, the ministry responsible for supporting SMEs should have been a key partner. Similarly, the universities play an active role in educating candidates for professional positions in the petroleum sector and as such, should have been involved in all dialogue concerning the LCPs implementation. Other institutions that were mentioned as key contributors that should have been partners in the LCP development included the Ministry of Labour and Employment, the Ministry of Finance (plans and manages revenues from the sector) and the local private sector itself (since they are the ones who would get the contracts that might lead to job creation for Tanzanians). These stakeholders also questioned the composition of the National Local Content Committee. They argued that petroleum companies should have been represented in this forum in order to ensure the involvement and ownership to the LCP by all key stakeholders. However, this committee was established to monitor the operators’ compliance with the LCP, including reviewing their procurement plans (GoT 2014a). Including IOCs in this committee might have compromised its work.

“LCP is not owned by stakeholders, but by MEM, something that is very wrong”

The role of the IOCs

The license holders naturally had strong incentives to interact with the government concerning the LCP, to organize events and to finance relevant studies. The respondents from the IOCs clearly articulated that the implementation of LC requirements could directly influence their profitability to such an extent that the extraction could be rendered unprofitable.¹⁹ Hence, the IOCs and their umbrella organization OGAT were heavily involved in discussions and negotiations with the government concerning specifics of the LCP. Moreover, the IOCs funded four round table dinners with speakers invited to disseminate knowledge about the challenges in the sector, and they contributed to studies such as the development of their own local content policies. Given the IOCs resources and experiences, it is not surprising that they had been able to articulate and table their views for the government’s consideration even under very difficult circumstances.

Nevertheless, the IOCs indicated that the consultations were not sufficient enough to ensure a proper dialogue about the issues. A key example was the Government’s request for the IOCs to provide comments and to respond to the Draft Petroleum Act with a four days deadline. In practice, this left them with only two days to review the act since they also had to go to Dodoma to present their views to a parliamentary committee. One respondent from the IOCs stated that “It is not possible to go through such a comprehensive legal document within two to four days even if you have the best lawyers. We would have needed at least two months. It is a very important document that requires much more time for consideration, and this was not an adequate approach or timeline for such consultations.”

A key overall finding is that the most important input to and discussions about the government’s LCP were not conducted by the Government in an open, broad and transparent manner. Rather, it has come through the initiatives of a few powerful stakeholders and anecdotal media coverage. A few respondents maintained that the media coverage of the fourth round of block sale and the riots in Mtwara in 2013 had led to an increased awareness

¹⁹ There are examples where excessive LC requirements have made extraction unprofitable and have forced the IOCs to pull out.

of LCPs and had probably been more important for the knowledge about LC among the general public than any of the organized activities. Some also pointed out that the riots were partly caused by a lack of inclusion in the process. This may indicate the importance of proper consultative processes, and may provide insight into the deep distrust that most of the local respondents articulated against the Government and the foreigners found within the sector.



7. CONCLUDING REMARKS

Stakeholders across institutional affiliations were, in principle, supportive of local content requirements. Among domestic stakeholders, many have a strong perception that if no strict requirements are set, very few locals would benefit from the natural gas resources. Many believed that the proposed LC requirements would exacerbate corruption and patronage, but much more so when it came to measures that require IOCs to purchase inputs from local companies. Hence, although both types of local content requirements could be used in corrupt practices and are susceptible to patronage, stakeholders view employment generation requirements as less risky compared to requirements intended to engage local companies in supplying goods and services.

Another main conclusion is that there has been no proper consultation process. We have shown that many of the stakeholders that should have been consulted would have provided important inputs to the LCP. The very short deadlines for stakeholders to provide feedback to key policies illustrate their restricted participation within the overall dialogue. The Government did not allow sufficient time for even the most basic consultative arrangements to take place, such as public debates, writing of op-eds and organizing seminars and meetings. Stakeholders need time to read, understand, discuss and formulate proposals relevant to proposed policies.

What are the advantages of a more thorough consultative process? First, policymaking can be improved and sharpened by the testing of hypotheses and views against those of other experienced and engaged stakeholders. Second, the general public and in particular the business community could have the opportunity to learn about many of the facts that are circulated throughout the sector, as well as the sector's prospects and the opportunities it provides. This can work to promote the involvement of a greater scope of the community, which is one of the key aims of the LCP in and of itself. Third, a proper consultative process is likely to eradicate rumors and incorrect information concerning the issues that are under consideration. It can also provide a platform for a dialogue that can be used to manage expectations and to garner agreement among the various cohorts involved in regards to the division of responsibilities. Finally, our study suggests that the high degree of distrust among the stakeholders could have been mitigated through an elaborate consultation process.

The lack of a comprehensive consultation process led to highly uneven participation in the policy debate during the development of the Tanzanian LCPs. The IOCs and a few selected donors were invited to the table by MEM, while many highly relevant government agencies, think tanks, universities and civil society organizations were left to organize their own events, often after the deadlines for submitting comments had passed. This led to the exclusion of stakeholders who did not have a budget for organizing such events or the network for participating in events set up by other stakeholders.

The high degree of suspicion between key stakeholders is a major concern. Several stakeholders within and outside of the government argued that the MEM had monopolized the process and kept both other public sector institutions and external stakeholders out of the process while developing the LCP. More generally, stakeholders believed that the government had a weak implementation capacity, and that this, coupled together with corruption and rent seeking, could jeopardize the implementation of the LCPs.

Moreover, among the domestic stakeholders, there was also a high degree of suspicion of foreign companies. Many believed that the IOCs would do everything they could to avoid implementing any LCP. These stakeholders saw the LCPs as important tools for ensuring that the IOCs actually contributed to the Tanzanian society. The discussions concerning the type of requirements that should be imposed frequently focused on the degree of flexibility that should be allowed. This debate is also dependent on the lack of trust found between the stakeholders. Many of those advocating for strict non-negotiable requirements did so because they feared that the IOCs would use flexibility as an excuse for not implementing the LCP.

Ultimately, it is crucial to understand that the high degree of suspicion and lack of trust prevents an effective policy dialogue from transpiring and likely reduces the suspicious parties' efforts in implementing the policies. One suggested measure to enhance the trust

There has been no proper consultation process

between the involved parties is to invest in an effective and transparent monitoring and evaluation system of the implementation of the LCP. Trust, however, is something that has to be earned through the development of long-term dependable relationships between the involved parties. This can only be achieved after an open and ongoing dialogue is embraced by all of the stakeholders.



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This Working Paper is an output from *Tanzania as a future petrostate: Prospects and challenges*, a five-year (2014-19) institutional collaborative programme for research, capacity building, and policy dialogue. It is jointly implemented by REPOA and CMI, in collaboration with the National Bureau of Statistics. The programme is funded by the Norwegian Embassy, Dar es Salaam.

