

Local content endeavours

By LORD WAVERLEY

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The visit by the Prime Minister to Kazakhstan, a country of geopolitical importance to the United Kingdom, will be welcomed. Kazakhstan, just twenty short years since independence, is on a fast-track development cycle with its large volumes of natural resources and is being courted by states from around the world. The United Kingdom does have a competitive edge, particularly with the large presence and global expertise of BG and Shell together with all that the Aberdeen centre of excellence is providing, however our relationship should not be expressed purely in economic terms; rather as a reliable partner along the Silk Road with its many needs, including job creation.

Kazakhstan is placing great emphasis on local content development, and encouraging a unified approach by the oil and gas industry, who in turn look to Government to create the environment to meet those ends. Whilst operational challenges are to deliver the three world-class projects of Karachaganak, Kashagan and Tengiz within budget and timing in a secure safe environment, a structured approach towards the industrialisation and creation of a base for professional skills is planned, which stakeholders should embrace in a New Order.

Measures and mechanisms that increase cooperation agreements between those with the necessary technology from around the world to partner those in Kazakhstan, is a growing necessity. There is good pragmatic reason to do so, beyond economic. The importance of social and corporate responsibility by investors and those who engage in operations also have a legal and moral imperative to do so. Ensuring a culture of legacy beyond investment, development and profits should be embraced as a norm, for which recipient countries should encourage and reward.

Employment creates an environment for stability, which in turn enhances the confidence that protects the very investments that are necessary for the development of national assets. In addition the focus is increasingly on creating an appropriate environment to attract cooperation agreements with technology transfer by companies in the global oil and gas supply chain. This will support the implementation of concrete foreign investment projects in services and fabrication of equipment and goods, which in turn will address current challenges and opportunities for the creation

of those new jobs. This will enable the establishment of a vibrant indigenous oil and gas supply-chain sector, taking advantage of the opportunities of national and regional markets, with the customs union with Russia presenting yet more opportunity.

I was tasked by the chairman of the national oil company, KazMunaiGas, to create and implement practical innovative mechanisms to unify the endeavours of the operators. So how did we set about this? Recognising the complex nature of the delivery of local content strategy that requires close cooperation and alignment between all sides of industry; operators, investors, suppliers, and central and local government departments, the *Aktau Declaration of Joint Actions* was agreed. This initiative involves a Task Force whose membership is drawn from operator signatories and investor companies.

The objectives include the strengthening of Kazakhstan's professional skills and industrial base to further maximise the opportunities for the companies and citizens to benefit directly from oil and gas projects as part of a strategy to develop an indigenous capability in the sector. The essential need to address current challenges and forthcoming opportunities for the creation of new jobs is also a real concern exercising the minds of decision makers.

The *Aktau Declaration* has created an operator Task Force using volunteer principles. It will become a model for an open and supportive environment of understanding and common purpose engaging industry and government stakeholders to accelerate sustainable local content progress and achievement. It is designed to improve coordination and consistency of local content programmes, based on a shared understanding of the challenges and vision of a strong and vibrant future for Kazakhstan's oil and gas industry.

Whilst current individual local content programmes continue to make progress and with the full recognition of the rights of operators and investors to develop their own strategies and programmes, the Industry Task Force will enable a greater sharing of knowledge and a better coordination of effort, to avoid duplication and to accelerate outcomes toward a common goal while developing a domestic supply chain. It is anticipated that this will make a substantive contribution towards long term sustainable employment.

The Task Force has agreed a strategy and the content

of a forward engagement plan with all stakeholders concerned with local content development and delivery. In addition, it will consider the strategy, content and current activities of the main contractors, equipment manufacturers, service companies, and of the respective national trade representative associations and will encourage a coordinated approach.

The terms of reference will use the frame work 'How it is – how it will be', containing six key components:

- Training and skills development (fast track programmes to address critical skill shortages and longer term skills capacity building for the future).
- An industrial capacity register as a source of reference to identify current and potential capacity in the oil & gas sector and non-oil and gas sector.
- Harmonisation of standards, specification and codes of practice.
- Enterprise development – to stimulate the promotion, growth and new development of local companies including access to management expertise and funding
- Inward investment programme – to contribute to the commercial environment and identify opportunities to accelerate and expand the domicile of manufacturing and supply
- Research and development – to anchor specific technology development programmes to create new high value business opportunities within local and domestic markets.

An immediate deliverable objective is to implement an independent gap analysis to cover the period 2013-2020. This will present a unique opportunity to achieve successful results including: the development and employment of the Kazakh workforce with expatriate contribution dedicated to training and education programmes; an increase in local sourcing mainly through tendering; long term business agreements and business development support; enhancement of the business environment and development of the infrastructure to support local businesses and foreign direct investment through government driven projects. The aim of the local content blueprint is to build on the successes to date by identifying pan industry opportunities. This will allow for a comprehensive and clear view of project demand and supply, and provide a basis for scenario planning and new local content development initiatives.

Quick-wins have been the creation of a joint operator working group of Contracts and Procurement specialists, drawn from each of the developments. We have considered the top commercial opportunities for investors and are currently working to harmonise technical specifications which will allow the fullest picture for investors to understand the depth of those opportunities, with dollar procurement values covering

such goods as pipe mill, fittings and flanges, drilling piping, rotating equipment and so on. These will be circulated worldwide and I would encourage global manufacturers and service companies to study those positive measures being embarked upon. Other matters such as realistic and harmonised pre-qualification criteria, ensuring that bid opportunities are properly circulated and then evaluated in a transparent manner, with debriefs by operators to explain why companies, and particularly the domestic companies, have failed to win, are considered an imperative.

A London strategy meeting last year, referred to as the *London Process*, was attended by all the major operators in Kazakhstan, together with their international partners. In a preparatory charter of good intent it was agreed that a structured approach be adopted by the four lead operators. The process involves reaching out to embrace all oil and gas companies operating in Kazakhstan, and being inclusive with the main contractors and investors. We will ensure that only plans of real substance will prevail.

There is no illusion as to the technical, commercial, and socio-economic challenges of this programme which I have outlined. It is recognised that it will take time, investment, focus, discipline and commitment to develop. There are huge challenges ahead but these priorities can be delivered within existing contractual arrangements and international treaties with foresight, willingness, respect and innovation. Tremendous opportunities will arise and the challenge ahead is relished. Solutions will replace impediments and success will be achieved with teamwork. **P**

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Workers at D Island, the main processing hub for the Kashagan oil project, in the northern Caspian Sea

