

Local Content in Contracting Strategy

Day 2 Program

DAY 2	Local Content Forecasts and Procurement
9:00 – 9:30am	Basic Concepts
9:30 – 10:00am	Local Content Forecasting: Industrial Baseline Studies
10:00 – 10:30am	Exercise #4: Industrial Baseline Studies
10:30 – 11:30am	Roaming coffee (whilst completing exercise)
11:30 – 12:00pm	Exercise #4 Debrief
12:00 – 12:30pm	Contracting Strategy
12:30 – 1:30pm	Lunch
1:30 – 2:30pm	Leveraging Local Content in Major Contract Tenders
2:30 – 2:45pm	Exercise #5 – Weighting Local Content in Tender Evaluation
2:45 – 3:15pm	Factoring Local Content into the Award Decision
3:15 – 3:30pm	Coffee Break
3:30 – 5:00pm	Exercise # 6 Evaluation of Local Content in Major Contract Tenders
5:00 – 5:30pm	Exercise #6 Debrief

DAI Local Content Masterclass - Course Map

DAY 1 Local Content Policy, Regulation and Plans

Definitions

Policy and
RegulationStakeholder
DialoguePolicy Trade-
offsLocal Content
Plans

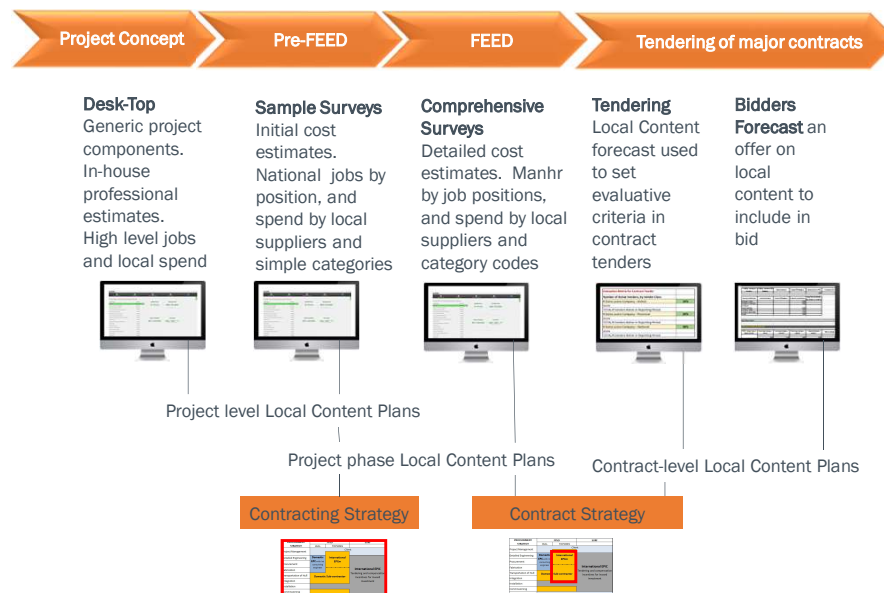
DAY 2 Local Content Forecasts and Procurement

Industrial Baseline
StudiesLocal Content
Forecasting**Contracting
Strategy**Major Contract
Tendering

DAY 3 Local Supplier Development and Local Content Reporting

Registration and
Pre-QualificationWriting a
Winning BidLocal Supplier
Development and EDCsReporting and
Metrics

Role of Local Content Forecasts in Contracting Strategy



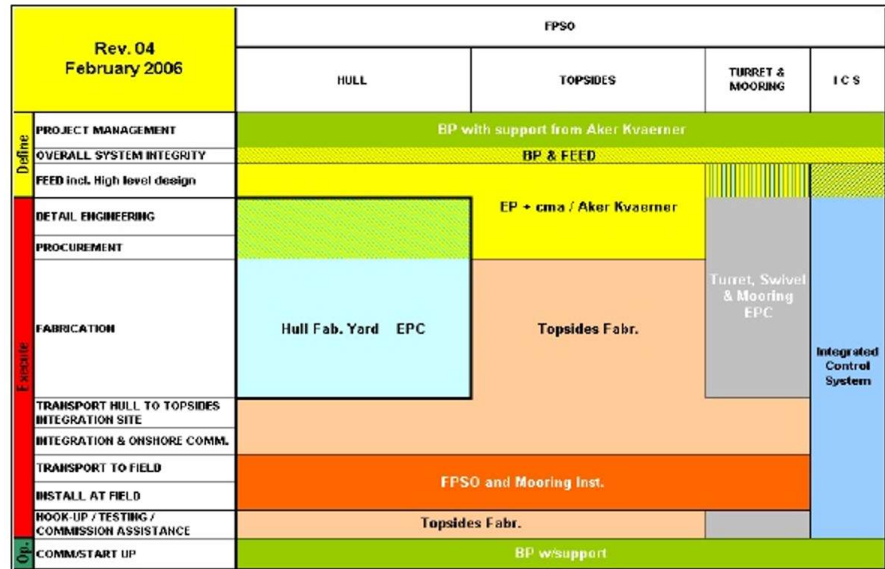


Contracting Strategy at Pre-FEED stage

EXAMPLE

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Off-shore Field Development Project: Floating Production and Off-Loading (FPSO) and Subsea Umbilicals, Flowlines and Risers (SURF)



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Example from Trinidad: Local Fabrication



FLUOR

BG GROUP



Contracting Strategy

Stage in Process	Key Criteria and Provisions
Contracting Strategy	<ul style="list-style-type: none"> "Maximisation of local Trinidad content..." one of three key drivers in Contracting Strategy. "...this being achieved by ...having international companies aligning local capabilities ...providing the project requirements are met and the budget and schedule are assured"
Pre-qualification	<ul style="list-style-type: none"> Letter of invitation to pre-tender contractors/consortia indicates that Local Content is a key evaluative criteria
Cost benefit study	<ul style="list-style-type: none"> Study demonstrated no material difference in overall cost/benefit between Trinidad and Gulf coast
Investment Committee	<ul style="list-style-type: none"> 'Open book' build up of Lump Sum, facilitated more effective inclusion of Local Content considerations
Letter of Award	<ul style="list-style-type: none"> Letter of Award nominates TOFCO as sub-contractor
EPIC Contract provisions	<ul style="list-style-type: none"> Under EPIC Contract, liabilities for TOFCO completing the topsides laid with the Fluor/RJD consortium

91.3% of value of TOFCO sub-contract stayed in Trinidadian economy:

- **Fabrication and structural** (100% AVC, 54% of contract value)
- **Construction management** (55% AVC, 3%)
- **Marine vessels** (100% AVC, 5%)
- **Electrical and instrumentation labour** (59% AVC, 7%)
- **Load out** - (100% AVC, 3%)

Sources: Fluor web-site, accessed 8th Oct 2013; Local Content in Procurement, 2012, Greenleaf Pub

<http://www.youtube.com/watch?v=EHVncXnoII0>

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Formulating Contracting Strategy

The Main Considerations:

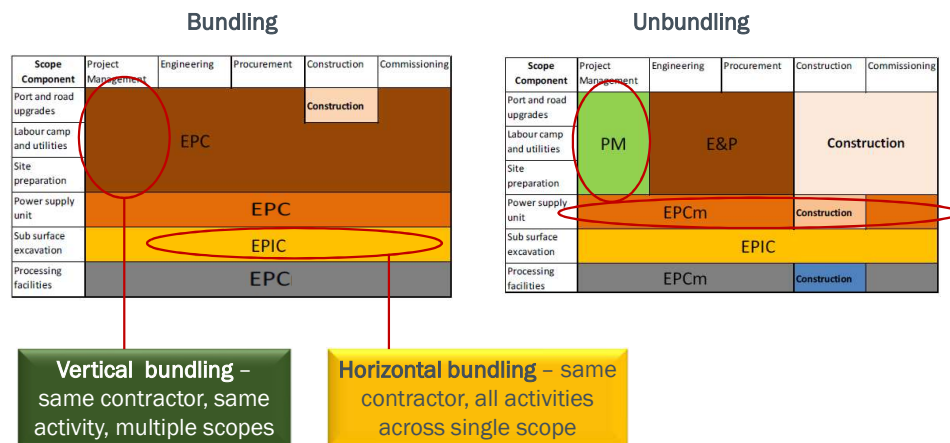
- Relative **weight** of Local Content as value driver against the other four procurement 'rights'
- **Demand-side opportunities for Local Content:** *short-term* (eg early works, production ramp up), *medium to long-term* (significant construction period, production/operations phase), *aggregate demand* (sequential/expansion projects, other developers, synergistic markets)
- **Supply-side capabilities:**
 - Local market capabilities, capacity and competitiveness
 - Speed at which competitive local capability can be developed
- **Main contracting levers** available to manage risk and deliver Local Content
 - packaging of work
 - extent of client control
 - compensation arrangements
 - contract tendering and award process
 - contractual terms

Procurement	PM	EPIC	EPIC
Project Management	Small EPC	International EPC	International EPC
Procurement	Small EPC	International EPC	International EPC
Construction	Small EPC	International EPC	International EPC
Commissioning	Small EPC	International EPC	International EPC
Operation	Small EPC	International EPC	International EPC
Decommissioning	Small EPC	International EPC	International EPC

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Packaging of Work and Client Control

- Different packages of contracts afford different opportunities for Local Content and supplier/skills development

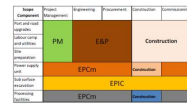


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Application of Forecasting Results

Comparing Contracting Strategies for Local Content

Contract Strategy - Scenario #1



\$70 m awarded to local suppliers
\$30m in-country goods
700 FTE skilled positions
400 FTE unskilled positions

Contract Strategy - Scenario #2



\$50m awarded to local suppliers
\$25m in-country goods
500 FTE skilled positions
250 FTE unskilled positions

Forecasting results provide the basis for understanding how different Contracting Strategies contribute different levels of Local Content

Summary

1. Understand level of **capability, competitiveness** and **risk** posed by local suppliers in different expenditure categories
2. Choose the right **packaging of work** (unbundle vs bundle)
3. Formulate **contracting strategies** that (i) afford access to competitive local suppliers and (ii) incentivise lead contractors to manage Local Content risks, *flow-down* opportunities, and develop local suppliers and skills