

Local content

in Brazilian oil & gas industry

www.anp.gov.br



What is it?

Local content is the percentage of materials, equipment, systems and services produced locally in relation to the total amount of purchases made by a concessionaire currently operating in Brazil.

The clause

Brazilian concession contracts for exploration and production contain a clause – Clause 20 – requiring operators to purchase a certain percentage of goods and services from locally established providers. Local providers are required to offer conditions of price, term and quality equivalent to those offered by foreign competitors.

Fostering development

The purpose of the local content requirement is to allow locally established goods and service providers to participate in the oil and gas supply chain and increase their market share in a competitive basis. The system is intended to foster the growth of Brazilian industry, technological development, capacity building of human resources, employment and income.

Since the very first bidding round of blocks for exploration and production, occurred back in 1999, ANP has used local content as ranking criterion when assessing proposals.

Until Round 4 (2002), local content percentages were free. On Rounds 5 and 6 (2003 and 2004), however, ANP established minimum percentages based on whether blocks were located onshore, offshore shallow water or offshore deep water.

As of Round 7 (2005), contracts have included minimum and maximum percentages of local content for a set of items used in the exploration and production development phases.

ANP's supervision

To ensure compliance with the local content requirements, ANP will monitor concessionaire investments and activities quarterly. The Agency will start inspecting local content on the following occasions:

- 1) Upon completion of the exploration phase;
- 2) At the end of the production development phase.
- 3) When the exploration block is returned and the concession contract is ended.

On all three occasions, block operators should provide ANP with contracts and invoices evidencing their investments. ANP will then review the documents and, where local content equals or exceeds those percentages agreed upon, will consider that the commitment has been fulfilled. Otherwise, a fine will be applied.

The Certification System

In 2007, after a long process of public consultations and hearings, ANP issued the Local Content Certification System (ANP Resolutions 36 through 39/2007), which established local content rules for all contracts signed since Round 7.

According to the new system, ANP-accredited firms are responsible for measuring and certifying the local content of goods and services in the oil industry based on the Local Content Primer - developed by the Brazilian Program for Mobilization of the Oil and Gas Industry (Prominp).

There are currently 21 ANP-accredited certification firms, and until 2011 over 7,500 certificates were issued to more than 400 local providers, evidencing over US\$ 2 billion worth of investments in Brazil.

For more information

On ANP's website you can find Agency's Resolutions about local content in its complete texts, ANP-accredited certification firms (organized by class of equipments and services purchased by oil companies), the results of ANP's inspections of local content and the full text of the Local Content Primer. www.anp.gov.br/conteudolocal



How to certify local content

Oil and gas companies interested in having their local content certified should contact an ANP-accredited certification firm. All firms authorized to issue these certificates are listed at www.anp.gov.br. Just 'click' the "Local Content" tab shown on the right hand menu.

Certification activities involve collecting data on the origin of components supplied, measuring local content and issuing certificates. By attaching these certificates to all invoices, concessionaires will testify to ANP that goods and services have been produced or provided locally.

