

# Local Content Policies and Cameroon's Petroleum Industry: Emerging Challenges and the Way Forward

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## Abstract

Although oil exploration and production has been going on in Cameroon, one of the greatest challenges has been how Cameroon can maximise the potential benefits from oil to avoid the under-development path that hits other oil producing countries. This challenge sprout as a result of lack of specialised skills in the development of her oil industry. Thus, the promotion of LCPs in her oil industry is seen as an ideal means to enhance skills and technology transfer in the oil sector. It is in this light that this paper seeks principally to examine how LCPs have been effectively implemented within the Petroleum industry in Cameroon which will go a long way to enhance economic development. To achieve this principal objective, the paper aims specifically to examine the opportunities that the State and the local oil producing communities could derive from a viable LCP framework within the oil industry in Cameroon. The findings of this research reveal that in as much as there exists a regulatory frame work to promote the implementation of the local content policies in the oil industry, the lacunae of the Petroleum Code, weak monitoring committee, limited human resource capacity and insufficient capital has been the major drawbacks for the ineffective implementation of the local content policies in the oil industry in Cameroon. It is in this respect that this paper strongly advocates for the government to define the quantitative, qualitative, reliable and verifiable indicators of local content, outlining a detailed schedule of the implementation of the local content requirements, formulating sanctions via a gradual regime of sanctions for non-compliance with local content obligations, strengthening the capacities of the national workforce as well as suppliers and other national service providers on jobs related to oil exploitation, involving both the local and indigenous communities in the definition and formulation of the objectives of the local content, creating a commission to monitor and evaluate the execution of the fiscal obligations and local content and reinforcing technical education to curb with technology transfer as a means to address the ineffective implementation of the local content policies in the oil sector of Cameroon.

**Keywords:** local content policy, petroleum industry, challenge, emerging

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## 1. General Introduction

In this contemporary era, local content is receiving enormous attention in resource rich developing countries, with an increasing

number of countries introducing or reinforcing local content with a view to stimulate the use of local factors of production to create value in the domestic economy and hence expand their

industrial sectors. Explicitly, Local Content Policies (LCPs) and legislation typically require investors to purchase a certain percentage of goods and services within the Host Country, and to train and hire national staff.<sup>1</sup> Indeed, in Sub-Saharan Africa, at least 11 countries have recently formulated local content policies for their oil and gas industries, or are in the process of doing so.<sup>2</sup>

The main goal of LCPs is to increase the economic benefits from natural resource extraction. In this perspective, it can be highlighted that in the African context, local content is envisaged as a potential solution to the sky-high rates of unemployment among the youth on the continent, and as a possible means to reduce social unrest and violence and contribute to the industrialisation of resource rich countries.<sup>3</sup>

Nonetheless, it is worth noting that many scholars have emphasised the potential negative consequences of local content policies in countries with flawed institutions, specifically those characterised by rent seeking behaviour and patronage.<sup>4</sup> Similarly, there are also concerns that strong and binding regulations for local content may limit the companies' "ability to generate income and thus Host Countries' revenues from the sector"<sup>5</sup>. Thus, one of the questions this paper seeks to address is; to what extent has the Local Content Policies in Cameroon been adhered to by the International Oil Companies in Cameroon? of what benefits will an effective local content policies be beneficial to the oil producing communities and the nation as a whole to enhance the transfer of skills and contribute to economic development?

It is in this light that the paper seeks to assess principally how LCPs have been implemented within the Petroleum industry in Cameroon which will go a long way to enhance economic development. To achieve this principal objective, the paper aims specifically to examine the opportunities that the State and the local oil producing communities could derive from a viable LCP framework within the oil industry in Cameroon.

In a nutshell, this paper is summarised into four parts. The first part provides a conceptual overview of the local content policy as a whole, an in depth of the regulatory framework of the local content policy in the petroleum sector in Cameroon is dealt in section two while the

opportunities for effective local content policies in Cameroon and the challenges are dealt in parts three and four respectively.

## **2. The Petroleum Industry: Conceptual Framework of the Local Content Policy**

Although there is no agreed definition of local content, some authors have considered it to be a branch of Corporate Social Responsibility; others regard it as a different field of study. Some researchers address it as a mechanism linked to a legislative mandate, while others let spontaneous company-led implementation to fall under the definition.

However, 'Local content is the extra value that an extraction project brings to the local, regional or national economy beyond the resource revenues, achieved by leveraging on the extractive value chain'<sup>6</sup>. The emphasis on this value beyond revenues means that it's an extra benefit that an agent of the country will receive, apart from the royalty's payments /taxes or dividends (if public) the extracting company will pay to the government.

Local content defined in some other way per IPIECA is the added value brought to a host nation (and regional and local areas in that country) through the activities of the oil and gas industry and this may be measured by project, affiliate, and/or country aggregate and undertaken through workforce development, employment of local workforce, developing suppliers and services locally and procuring supplies and services locally. Apparently, therefore, local content policies concerns maximizing the benefits from domestic oil and gas development by maximizing the quantity of "local content" or "local value addition" in the oil and gas sector sectors.

Warner defines it in terms of the value contributed to the national economy through the purchase of national goods and services<sup>7</sup>. In the same token, Esteves, Coyne and Moreno, stipulate that it includes various schemes ranging from delivery of raw materials on site, to establishment of commercial relations with firms with permanent operational offices in a given area<sup>8</sup>. In this regard, they assert that local content policies in the context of the hydrocarbon sector are aimed at extending or expanding the benefits of the oil, gas and mining activities for the national economy;<sup>9</sup> with the policies attempting to open access to economic opportunities through employment,

participation in the supply chains or provision of other related support services<sup>10</sup>.

The premise of the local content policy has been traced to the need to regulate the prescriptions of the theories of the “Resource Curse” and “Paradox of the Plenty”. Both theories hypothesised that natural resources-rich countries should out-perform resource-poor countries since it is assumed that resource-abundant economies have the ability to accumulate economic infrastructure and human capital more easily compared to resource-scarce countries<sup>11</sup>. However, empirical studies on the link between natural resource endowment and economic growth especially in developing economies show that many natural resource-rich countries have performed poorly relative to natural resource poor countries<sup>12</sup>. Among countries which have fallen victim of a resource-curse are countries like Nigeria, Angola, Congo, Bolivia, Sierra Leone and Cameroon inclusive. These countries are plagued with constant civil unrest, poverty and under development. Thus, local content policy can be used as one of the tools to achieve economic development by enacting strict legislations to be adhered to by the oil companies. This was the case with Norway where primarily through its national oil company, Statoil, the government promoted LCPs by establishing a mandatory condition upon the International Oil Companies to transfer technology and expertise to scale up local participation in the oil and gas industry. Even though Norway did not impose any specific employment or local content targets or quotas, they nonetheless, emphasised value addition and the building of competencies.

### **3. The Regulatory Frameworks of the Local Content Policy in the Cameroon’s Petroleum Industry**

#### *3.1 An Overview of Cameroon’s Petroleum Industry*

According to records<sup>13</sup>, Cameroon’s first oil and gas exploration was carried out in 1947 by the French Office of Oil Research. This led to the issue of the first exploration permit by the Government of Cameroon in 1952 to an oil company Serepca. The first commercial discovery was at the Betike oil field and commercial production began in 1977 in the kole’ oil field in Rio del Rey Basin<sup>14</sup>. Oil production continued to be of major economic importance to Cameroon accounting for about 70 percent of the country’s GDP in 2008<sup>15</sup>.

According to the USA Energy Administration, Cameroon’s oil production is 57th in the ranking of the producing countries, with a daily production at 63,000 barrels per day and estimated commercial reserves of 200 million. Cameroon has series of oil reserves and most of its known commercial and prolific oil reserves are located in the offshore of Rio del Rey Basin which accounts for 89 percent of the country’s oil reserve with the remaining 11 percent located in the Douala and Kribi campo basin and onshore in the Logone-Birni basin in the northern part of the country<sup>16</sup>.

The Cameroon petroleum industry is commonly divided into three sectors; upstream and downstream sectors<sup>17</sup>. Despite the modest level of Cameroon’s oil industries, petroleum sector in Cameroon has witnessed an increase in exploration and production activities with International Oil Companies<sup>18</sup> (IOC) like Perenco, Total, Kosmos Energy, Addax petroleum, Bowleven oil and Gas plc and Victoria Oil and Gas (VOG). The development of the petroleum sector is done principally through the Ministry of Mines, Industry and Technological Development, (MINMIDT), the National Hydrocarbons Corporation (NHC), the Hydrocarbons Stabilization Fund (CSPH), National Oil Refinery (SONARA), the National Petroleum Storage Company (SCDP), Oil Product downstream marketers and oil companies. The key legislation governing this sector is law Law N° 99/013 of 22 December 1999, instituting the Petroleum Code as amended and completed by law N° 2019/008 of 25 April 2019 and it’s implementing Decree.

#### *3.2 The Regulatory Frameworks of Local Content Policies Within the Cameroon’s Petroleum Industry*

One of the challenges for Cameroon is how to maximise the potential benefits from her natural resources to avoid the under-developmental path that was trajectory of most other oil producing countries in Africa, such as Sudan, Angola and Nigeria. There is a general consensus that lack of specialised expertise is a major obstacle to Cameroon’s realization of its resource potential. According to the World Bank, “significant skills shortages exists both in terms of numbers and quality”, especially within the fields of science, technology, engineering and mathematics. The bank notes that evidence from African countries, Cameroon inclusive indicates that ‘skills and the institutions that affects firm and sector level capabilities, constitute the most

important determinant of economic growth'. Thus, the formulation of local content policies in the oil sector of Cameroon was seen as a means to deal with skills problem. Even though this came late considering the fact that oil was discovered in Cameroon in the 1950s, the Cameroonian government through the parliament formulated the Petroleum Law to regulate the petroleum sector in 1999. This law which today has been amended and completed by Law N° 2019/008 of 25 April 2019, has made local content policies in the petroleum sector as statutory obligation for the International Oil Companies.

Concretely, the Petroleum Code as amended is the principal legal framework governing the oil sector in Cameroon, with its main purpose of promoting petroleum operations throughout the national territory; laid down conditions for hydrocarbons prospection, exploration, exploitation and transportation; determine the rights and obligations relating to petroleum operations<sup>19</sup>. The Code gives the state sovereign rights over its hydrocarbons<sup>20</sup>.

Within the Cameroon's oil sector laws, one may say the concept of local content<sup>21</sup> is relatively new, and has not been explicitly provided. Hence, as far as the oil legislation are concerned, local content issues can only be tacitly inferred from them (as shall be considered in the analysis that follows), even though this might be perilous since even the express articulation and respect of local content is still seriously problematic<sup>22</sup>. In this perspective, to understand the content and scope of LCPs within the Cameroonian context, the following salient facts need to be recapitulated. In the economic perception, local content is akin to "local added value".

Similarly, the definition of local content in the Cameroonian Petroleum Code can be summarised in term of promoting human resource development, use of local services and transfer of skills through vocational and training programmes organised by the petroleum industries. In this light, Section 86 of the Petroleum Code provides that the development of national petroleum resources must help to assess local content. To achieve this objective,

Section 87 provides that: (1) the local content shall comprise a human resources development component and a component pertaining to the use of local services and goods supply companies. (2) The local content adopted in

Petroleum Contracts shall include: a vocational and technical training Programme for Cameroonians in order to scale up their skills in the petroleum trades; any other aspect likely to enhance local content.

Section 88 further provides that: "Petroleum contract holders shall, in case of equal competence and, as a matter of priority, to recruit qualified Cameroonians in all socio-professional categories and at all positions for the conduct of their petroleum operations".

Section 89 of the Code holds that: 'Petroleum contract holders and their sub-contractors shall be bound, as a matter of priority, to award construction, insurance, goods and services, materials, equipment and products supply contracts directly or indirectly related indirectly related to Petroleum operations to companies under Cameroonian law that have their registered offices in Cameroon and meet internationally recognised standard.'

Similarly the Gas Code defines local content as "All the activities focused on local capacity development use of local human and material resources, technology transfer, the use of industrial companies and local services, and the creation of additional values measurable to the local economy"<sup>23</sup>. From this, it is realised that it seems to reconcile the different previous definitional approaches of local content.

Explicitly, the LCPs requirements and obligations of oil companies in Cameroon as stated in the Petroleum Code can be assessed and analysed using two prime mechanisms<sup>24</sup>. On the one hand, we have the actors—who are involved in the day-to-day monitoring of the implementation of the obligations and other the hand, we have the different oil markets. In this light, the Code empowers the Minister in charge of hydrocarbons and/or any duly mandated government body or establishment with the obligation of implementation and monitoring of the local content policies in the oil sector<sup>25</sup>. The aforementioned provisions, shows the commitment of the Cameroonian government in enhancing the local content policies in the oil sector.

Despite these conscious efforts made by the government in promoting local content policies in the oil sector, implementation still remains a setback. Before examining the emerging challenges in its implementation, it is worth considering the benefits that the nation will



accrue if the local content policies are effectively implemented in the oil industry.

#### **4. Opportunities to Be Derived from an Effective Implementation of the Local Content Policies in Cameroon's Oil Industry**

These benefits can be appreciated from two levels; the state and the local oil producing communities.

##### *4.1 Benefits to the State*

###### **4.1.1 Correct Market Failures**

The effective implementation of the local content policies within the oil sector in Cameroon can be used as an effective tool to correct potential market failures in the economy. These market failures can arise when there is a distortion that keeps the market from allocating resources efficiently and adjusting to a steady state, with the result that domestic industries cannot gain the necessary technology and capacity to compete on the open market without outside intervention and protection<sup>26</sup>. The market fails from a domestic perspective, because the lack of skills to serve the needs of the industry results in inefficient allocation of resources in the market. By requiring oil companies to invest in the development of particular local skills, LCPs can help to correct this market failure because such requirements help to ensure that skills are available to meet the demands of the market.

###### **4.1.2 Promote the Growth of Domestic Industries**

LCPs can contribute to the productivity and competitiveness of domestic industries through knowledge of transfer that take place from foreign firms to domestic firms<sup>27</sup>.

###### **4.1.3 Increase in Government Revenue**

The state needs revenue to carry out developmental projects as well for the proper functioning of the nation's activities. Fortunately, oil has given the state the opportunity to raise these revenues. As local domestic industries develop due the transfer of Technology through LCPs, it gives the state an opportunity to tax these industries, thus contributing to her source of public finance. Besides, the various oil marketers pay taxes to the government.

##### *4.2 Benefits to the Local Oil Producing Communities*

###### **4.2.1 Employment Opportunities**

Unemployment is one of the causes of social unrest in Cameroon. The exploitation and production of oil in Cameroon has provided the

opportunity through which the local population can be employed, consequently reducing unemployment. The development and exploitation of oil in Cameroon has created several jobs directly and permanently or temporarily to the local communities. This has been made possible with the existing legal text that regulates this activity. To this effect, Section 88 of the Petroleum Code provides that the holders or sub-contractors of petroleum contracts shall employ in priority qualified personnel of Cameroonian nationality for the purposes of their petroleum operations. During the exploration and exploitation phases, substantial work forces of the local inhabitants are usually employed. In addition, both skilled and unskilled labours are employed during construction of the oil plants and gas plants. This has not only helped in improving on the living standard of the local inhabitants but has also reduced unemployment rate in the nation.

###### **4.2.2 Opportunity for Developmental Projects**

Benefits from oil operations does not only provides employment opportunities to the local inhabitants, but have also pave the opportunity for development in the local communities through construction of roads network and infrastructural developments, telecommunication systems and water projects<sup>28</sup>. Road network is a very meaningful index for development. Roads networks facilitate the movement of persons and the circulation of goods from one place to another. Without roads, an area stands to be enclave. With an interview held with one of the officials in the Ministry of Mines, Industries and Technological Development<sup>29</sup>, a substantial part of the road leading to the Kribi power gas plant was constructed by Perenco. Despite the fact that the roads are created to serve the needs of the oil companies, the local communities tend to use these roads in carrying out their own activities. Apart from the development of roads, there have also been infrastructural developments. In most of the areas where petroleum operations are carried out in Cameroon, the IOCs build houses to accommodate their workers and the IOCs have set up good structures as offices to enable them carry out their activities.

###### **4.2.3 Technology Transfer**

Capacity building (knowledge transfer and/or training) is an essential element of local content. Indeed, a project can only really be beneficial to

a community if it can continue the said activity or those related to it. Oil exploitation has provided the opportunity through which knowledge can be transferred to the local communities. This has been enhanced by section 77(2) of the Petroleum Code which obliges the IOCs to set up and finance training programmes for Cameroonian personnel of all qualification for the purposes of petroleum operations. To this effect, the local inhabitants who are employed by the IOCs are trained on certain working techniques specific to the oil industry and the driving of their heavy engine vehicles. More to this, the local population in the course of working in the oil industry, they learn new ideas and techniques.

### **5. Challenges to the Application of the Local Content Clause in the Oil Sector in Cameroon**

Despite the provisions made by the Petroleum Code on the implementation of the local content policies, its applicability to an extent still remains ineffective. This section of the paper thus exams the challenging circumstances faced with the application of the local content policies in the oil sector and thus proposed some constructive recommendations in this light.

#### *5.1 Limited Human Resource Capacity and Availability*

According to the Local content policy of Cameroon for oil industry, it argued that; Cameroon has few local experts in the oil and gas industry, most of whom, are serving in public sector. These experts are capable of operating and maintaining the respective facilities. Following the huge discoveries of oil and natural gas, skill shortages across the industry value chain has become apparent.

#### *5.2 Technology Availability and Application*

According to the Local content policy of Cameroon for oil industry, it argued that; Because of the technological advancement in the petroleum sector and its use of specialized input, technology and knowledge, Cameroon has adopted the use of Production Sharing Agreements (PSAs) and other contract options that allows the International Oil Companies (IOCs) to transfer their technology, knowledge and finance. Cameroon enters into oil contracts with multinational companies in the oil and gas industry on merits of their technological and financial capabilities.

However, these contracts do not fully ensure the

transfer of technology and skills to the nationals because of weak follow committees to enforce it. Apart from the PSA requirement for the IOCs to endeavour to transfer technology, Cameroon has not put in place Local Content implementation strategies for the transfer of technology and knowledge. For instance, there is no quota system as to the employment of nationals in the IOCs which are based in Cameroon.

#### *5.3 Financing Options*

Exploitation of oil and gas is a risky undertakings and capital intensive business that local financial institutions and insurance companies cannot support. Currently, all financing of operations in exploration of oil and gas in Cameroon are through risky capital paid for by either oil companies own equity or by international multilateral banks. On the other hand, Oil Companies also insure their assets, operations and equipment with insurance brokers through reinsurance with 'A' rated International Insurance Companies. However, since many service industries cannot raise enough capital, it makes it difficult for Local businesses to provide services to oil companies.

#### *5.4 The Lacunae of the Petroleum Code*

The petroleum code has been put into place to regulate petroleum operations in Cameroon. However, this Code has been faced with some flaws. One of the provisions of this Code faced with discrepancy is the local content clause. Section 88 of the Code states that the IOCs are to employ qualified personnel of Cameroonian nationality for the purposes of petroleum operations. Although this Code present general provisions regarding the Local Content, it has not made any precision on the percentage of the nationals who are to be employed in oil operations by the IOCs. Without any system of precision as to the percentage, the assessment of local Content practices of oil companies will rely primarily on its programs and/or initial activities (Human Resource policy)<sup>30</sup>.

### **6. Conclusion**

The Cameroonian government has not been indifferent in addressing the subject matter of the local content policies in her oil industry. In doing so, the parliament enacted in 1999 the Petroleum Code to regulate the petroleum sector. This Code unequivocally made local content policy a statutory obligation. Though a fine piece of legislation, implementation of this legislation in the area of the local content

policies remains a major drawback. The ineffective implementation of this regulatory framework and institutional frameworks has done nothing but promote non-compliance of the local content policies in the petroleum sector in Cameroon. It is in light that this research has put forth some recommendations to whistle and advocate for a sustainable legal and institutional framework of local content in Cameroon, in order to ameliorate the debilitating legal and operational regime of LCIs by taking a close consideration of the following critical factors:

- (i) Defining the quantitative, qualitative, reliable and verifiable indicators of local content;
- (ii) Outlining a detailed schedule of the implementation of the local content requirements;
- (iii) Formulating sanctions via a gradual regime of sanctions for non-compliance with local content obligations; strengthening the capacities of the national workforce as well as suppliers and other national service providers on jobs related to oil exploitation;
- (iv) Involving both the local and indigenous communities in the definition and formulation of the objectives of the local content;
- (v) Creating a commission to monitor and evaluate the execution of the fiscal obligations and local content;
- (vi) Strengthening the capacities of different agents in charge of monitoring the local content and fiscal obligations;
- (vii) harmonizing the different laws and legal frameworks linking the land tenure issues to mining taxation;
- (viii) Ensuring the respect or reinforcing penalties already specified in case of non-compliance with the tax obligations by a company;
- (ix) Reinforcing technical education to curb with technology transfer.

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<sup>3</sup> Ibid.

<sup>4</sup> Wiig, A., Kolstad, I. (2010). Multinational corporations and host country institutions: a case study of CSR activities in Angola. *Int. Bus. Rev.*, 19(2), 178-190; Oguine, I. (2011). Nigerian content in the Nigerian petroleum industry: legal and policy issues. *J. Energy Nat. Resour. Law*, 29(4), 405-430. Oguine. 2011; Ovadia. (2014). op cit.; Hansen, M.W., Buur, L., et al. (2016). The economics and politics of local content in African extractives: lessons from Tanzania, Uganda and Mozambique. *Forum Dev. Stud.*, 43(2), 201-228.

<sup>5</sup> Kolstad, I., Kinyondo, A. (2015). Alternatives to Local Content Working Paper 2015/106. United Nations University (UNU)—World Institute for Development Economics Research (WIDER), Helsinki.

<sup>6</sup> The Natural Resource Governance 2015.

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<sup>9</sup> Ibid.

<sup>10</sup> Ibid.

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<sup>13</sup> Fresh Field Bruckham Deringer LLP, (2013). pp. 1.

<sup>14</sup> Ibid.

<sup>15</sup> Production data from EIA. (2011a). Share of GDP data calculated from UNCTAD export data ('petroleum, oils from bitumin Materials, crude') and World Bank current prices GDP.

<sup>16</sup> Mbendi Information Services (pty) Ltd, (2010a). pp. 1.

<sup>17</sup> Briggs et al. (2012). Managing and Mitigating the Upstream Petroleum Industry Supply Chain Risks: Leveraging Analytic Hierarchy Process, pp. 7.

<sup>18</sup> The terms 'International oil company or IOC', 'Foreign Oil Company', 'Private Oil Company' and 'Foreign Investor' is accorded the same meaning and is subject to be used interchangeable in this research. Petroleum company is a commercial public or an industrial and commercial public body which has shown evidence that it possesses the necessary technical and financial capabilities to properly carry out petroleum operations as well as to protect the environment. This company may be constituted either under the laws of Cameroon or under foreign law. In the latter case, it must throughout the duration of the production contract: have a permanent establishment in the Republic of Cameroon, registered on the registry of Commerce, and comply with the legislation and regulation in force on commercial companies. PART I section 2.

<sup>19</sup> Section I of the 2019 Petroleum Cameroonian Code.

<sup>20</sup> Section 3 of the 2019 Petroleum Cameroonian Code.

<sup>21</sup> Local Content in general, may be defined in the sense of local participation. It could also be defined as "the level of social adherence in the form participation in, and funding of local projects", i.e., the support of local people through training and capacity building of employees and/or non-employees of the company. 53

<sup>22</sup> Tamasang, C. Unveiling Local Content Provisions in Extractive Sector Laws in Cameroon: Perspectives for Sustainability of National Livelihoods. *African Journal of Law*, 1 Harmattan, Paris, No 1/2016, p. 11.

<sup>23</sup> Article 2 of the Law issued in the 1st ordinary session of March of the 2012 legislative year.

<sup>24</sup> Akama S. et al. (2018). Local Content Initiatives and Local Development: The Trends and Constraints of the Mining Sector In Cameroon, *International Journal for Advanced Research*, p. 189.



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<sup>25</sup> Section 90 of the 2019 Petroleum Code.

<sup>26</sup> Alisa D. et al. (2006). The WTO and the shrinking of Development Space 'How Big is the Bite, *The Journal of World Investment and Trade*, 75, p. 783.

<sup>27</sup> Olivier M. 2012 FDI in sub-Saharan Africa; Few Linkages, Fewer Spill overs, *European Journal of Development Research*, pp. 26-31.

<sup>28</sup> Section 57 of the 1999 Petroleum Code.