Making Growth Happen: implementing Policies for Competitive Industries

Local content experimentation in O&G in Brazil: experience and challenges

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Summary

The opportunity: large investments in O&G

Background

The Policy Issue

The answer does not start or end in LC

LC as an instrument

LC is not alone: the pressure for competitiveness

Costs comparisons: a challenge for domestic producers

Summing-up
The opportunity: large investments in O&G

**INVESTMENTS 2013-17**

- Petrobras: 80%

**Demand 2013-2020**

- US$ 296.7 bi (Capex)
- US$ 63 bi (Opex)

- + 88 Tanker Vessels
- + 198 Large Supply boats
- + 36 Production units
- + 28 Drilling Rigs

**OPORTUNITIES**

- Investment scale
- Long term investments
- Demand for new technologies

**Source:** Petrobrás Business Plan, ONIP
INSTITUTIONAL DEVELOPMENT

1953: Petrobras monopoly
1995: End of monopoly
1997: Petroleum Law
1998: Petroleum Agency
1999: ONIP Industry mobilization, LC rules post monopoly
2010: New pre salt model

HISTORY

CONTEXT

CAPABILITIES

OPTIONS
(a) How to maximize the economic and social return of the O&G investment boom?

(b) How to develop an internationally competitive O&G supply chain?
The answer does not start or end in LC

BUT LC HAS A ROLE AND IMPACTS THIS AGENDA
LC as an instrument

- One policy, many rules
- What are the objectives?
- LC under stress
- Not alone: the pressure for competitiveness
Inside LC: one policy, many rules

THE STARTING POINT: THE BIDDING PROCESS

1. Commitments, definitions and proofs varies with different biddings


2. Recent pattern

✓ Global goal  +  Product lists
✓ Risks assumed in the bidding process
WHAT ARE THE OBJECTIVES

- Economic crisis
- Income and employment
- Political agenda
- Climbing the value chain
- International competitiveness
- What to conquer?
- What to specialize?
THE CONFLICTS START TO APPEAR

LC as an instrument

INCOME AND EMPLOYMENT

- Total procurement
- Bigger subsidy
- Impact on Competitiveness

CLIMBING THE VALUE CHAIN

- Selected procurement
- Supply side policies
- Greater capacity to capture the incentives

Quantity vs Quality

Source: CNI (Guimarães, Eduardo. 2011)
LC as an instrument

**LC: STRESS POINTS**

**Operators**

- Rules design increases uncertainty
  - Commitments on equipments and technology before knowledge of reserves
  - High penalties for non-compliance
  - Complex waiver process

**Domestic supply-chain**

- Demand uncertainty
  - Petrobras cycle
- Certification costs (SMes) – Trade secrets
- Effects on innovators due to higher demand for imported inputs
LC as an instrument

LC: STRESS POINTS

The big issue:

☑ The evolution of demand  ❌ Supply reaction

US$ 6 bi in 2005

US$ 18 bi in 2016

The traditional issues:

☑ Quality, service, price and delivery time
LC is not alone: the pressure for competitiveness

COUNTERVAILING INSTRUMENTS

**REPETRO**  
Special tax and tariffs regime

**EX TARIFFS**  
Reduction on tariffs for non similar imported goods

**CERTIFICATION**  
Pressure on efficiency

**FDI ATTRACTION**  
No bias, open roads to competition

**TAX IMPORT BIAS**  
ICMS (value added tax)
SOME OUTCOMES

Shipyards

Sub sea equipment

Automation

R&D CENTERS

BG

Baker Hughes

General Electric

Halliburton

Petrobras

FMC

IBM

Schlumberger

NEW PLAYERS,
NEW ENTREPRENEURS
Costs comparisons show challenge for domestic producers

- Scale
- Production process
- Technology

SYSTEMIC FACTORS (TAX, LOGISTICS....)

NEED TO FOCUS
1. It’s a policy tool. But use with care.

2. Clarify the goals (DD x tech) and use the appropriate instruments.

3. The LC design can vary and results in different outcomes.

4. Politics is always around. LC is not created in a vacuum.

5. Institutions matters.

6. The demand policies design should take into account the supply bottlenecks.

7. Context, history and capabilities defines the scope of the options.
7. LC is just one of the instruments. Should be temporary and connected to competitiveness goals.

8. The O&G policy is intensive on coordination. The “death valley” risk is high and consistency is not always around.

9. A good competitiveness and technological gap evaluation is a starting point to induce sound policies.

10. A necessary balance between penalties and incentives.

11. Monitoring and evaluation are important, but are scarce resources.

12. The exchange rate, tax and tariffs policies, influences the demand for LC policies.
And last, but not least

LEARN BY DOING, A COMPLEX STORY