The Metals And Minerals Sector: An Underexplored Gold Mine For Local Content?

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When we think of local content, the conversation naturally turns to developments in the global oil and gas sector, which has had established and rigid local content regimes for many years.

However, the worldwide metal and minerals sector is another global industry that has followed a divergent evolution with respect to local content, and may well have more of an impact on fostering indigenous industry.

Oil and gas - excelling in local content compliance

The upstream oil and gas industry has been particularly effective in several areas of fulfilling its local content objectives.

Firstly, oil and gas companies are particularly well-adapted to dealing with the stringent regulations that are imposed with regards to local procurement targets. For instance, the Brazilian state-owned energy giant Petrobras has a local procurement plan requiring 55% to 65% local content for the general construction of drilling rigs, and 20% to 40% domestic content policy for drilling equipment.

Whereas many businesses might choose to concentrate their local content offerings in particular areas of procurement, oil and gas entities are generally ahead of the curve with respect to conceiving and rolling out local content strategies that span the whole gamut of expenditures - focusing not only on the procurement of capital equipment, but also everything from foodstuffs to clothing.

Incentivising local participation

The oil and gas industry has been a forthright proponent of building domestic industrial capabilities and further to that, incentivising their major contracting partners to build into their tendering process provisions to harness and expand indigenous engineering capabilities.

An example of this is Subsea 7's recently awarded billion dollar development of the Pre-Salt deepwater Guará and Lula NE Areas, located in the Santos Basin. The rigid pipelines necessary for deep water hydrocarbon exploitation will be manufactured at a pipeline fabrication spoolbase which Subsea 7 are constructing from scratch at Paranaguá in Brazil's Paraná state.

The mining sector - digging deep in the local community

The hydrocarbon industries may be significantly more developed when it comes to local content-driven procurement targets, but the metals and minerals sector may have the upper hand with regards to the building of skills and management capabilities of direct national employees.

This is mostly down to manpower. A mining operation will employ as many as three to four times as many people as an upstream oil and gas operator, simply because the need to physically have a "man on the ground" - or underneath the ground - is greater necessity in a mining context.

For this reason, metals and minerals companies have extensive career development programmes in which home nationals are progressed up the corporate hierarchy for the benefit of company and community alike.

Community building - an onshore phenomenon?

The physical nature of a mine is also one of the primary reasons why metals and minerals companies are experts in developing the capabilities of locally-based suppliers of good and services.

Whereas the majority of oil and gas assets are based offshore, mining is predominantly an onshore business, surrounded by and drawing on a permanent local community for its needs. Dedication to community content, or local local content as it is sometimes known, is therefore paramount to the longevity and integration of a mining project into the national fabric.

Why national governments are attracted to Mining for the development of local suppliers

Speaking to Oil & Gas iQ, Dr Michael Warner, Director of UK-based consultancy Local Content Solutions said: "It could well be that the mining sector has even more to contribute to developing local content than the upstream oil and gas industry.

"Unlike oil and gas, many mining operations have considerable 'rolling' capital expenditure, where on a periodic basis companies will have to replace capital equipment - for example heavy vehicles and excavation equipment"

As opposed to the oil and gas industry, where there tends to be a spike of capital spending at the beginning of a project that rapidly declines after the asset has gone live to a significantly lower level of operational expenditure, the mining industry will experience that same initial spike but also subsequent and sustained capital spending as equipment is replaced and operations are expanded above or below ground over time.

"The attraction of this rolling capital expenditure for governments is that it presents a long-term opportunity to build domestic capability and competitiveness to supply the mining sector, especially in materials and manufacturing" said Warner.

Aggregate to capitalise - pooling resources to reap rewards

"Another attraction of the mining sector to national governments is the potential for aggregating supplier markets" affirms Dr Warner.

"Mining companies - particular those located in the same geographical sub-region - may be able to aggregate parts of their procurement expenditure, thereby increasing the overall demand for certain goods and services. This then increases the incentives for domestic suppliers to invest in new capability and improves the chances of their ability to raise risk finance."

We can see this aggregation strategy perfectly played out in the Zambian copper-belt, where mining companies have come together to aggregate demand, thus incentivising domestic suppliers to invest in building up their capability.

Where the oil and gas industry has been a major harbinger of domestic development, it seems that the metals and minerals sector may prove to be an even richer vein in the local content field.