

## PalArch's Journal of Archaeology of Egypt / Egyptology

### LEGAL FRAMEWORK OF LOCAL CONTENT REQUIREMENTS IN THE IRAQI KURDISTAN REGION OIL AND GAS SECTOR

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**Rdhwan Shareef Salih. Legal Framework of Local Content Requirements in The Iraqi Kurdistan Region Oil and Gas Sector -- PalArch's Journal of Archaeology of Egypt/Egyptology 18(08), 304-321. ISSN 1567-214x**

**Keywords: Local Content Framework, Local Content Requirements, The Kurdistan Regional Government, Production Sharing Contracts, Local Staff, Local Goods and Services.**

#### **ABSTRACT**

Extractive industry legal frameworks often contain provisions for regulating and managing local content requirements. The local content framework in the Kurdistan Region of Iraq is also anchored in a legal and regulatory framework that mostly derives from the Kurdistan Region Oil and Gas Law No. (22) of 2007 and terms set in Production Sharing Contracts (PSCs). The law and PSCs simply give preference to the acquisition of local goods, services and to the Kurdistan Region and other Iraq citizens in employment, training, skill development, and technology transfer with a view to promote local content. This study aims to critically analyse the legal framework of the Kurdistan Region local content requirements, to examine its main characteristics, to survey outcomes of its implication, and also to ascertain its legal complications. This study has clarified that provisions of the Oil and Gas Law 2007 and the Kurdistan Region's PSCs regarding local content requirements are not well organized and there is the absence of a specific local content law or regulations. Therefore, local content requirements in the Kurdistan Region have not been able to engage the local staff in senior levels and the Kurdistan Region still suffers from poor quality of the training system. Finally, the study propounds numerous recommendations for the Kurdistan Region to minimise legal contentions and risks relating to local content requirements of the Kurdistan Region.

#### **INTRODUCTION**

Most petroleum sectors' activities of Middle East countries, such as exploration, drilling, production, and other services, are dominated, controlled and managed by foreign multi-national companies. On the other hand, only

minor activities have been awarded to local companies because they often do not have the experience, skills and capacity effectively to undertake petroleum operations. Therefore, local content requirements have become prominent in the petroleum industry in these countries. Local content requirements, as a policy for enhancing sustainable development regarding non-renewable resources and also as a mechanism to transform short-term benefits of natural resource extraction into long-term development, are not new amongst resource-rich countries.

The surface rental fees, royalties, profit petroleum, bonuses and taxes are the main content of the fiscal regime in most petroleum exploration and production contracts, however, local content requirements represent a second avenue for achieving positive developmental outcomes. Ackah-Baidoo clarifies that local content is “a strategy which emphasizes the establishment of new and fortification of existing economic linkages through non-fiscal measures, and efforts which extend beyond the direct contribution to the Gross Domestic Product (GDP) and government revenues.” Mushemeza and Okiira state that local content refers to:

... the extent to which the output of the extractive industry sector generates further benefits in the economy beyond the direct contribution of its value-added, through its links to other sectors. Local content ... as workforce development (employment and training of local labour) and developing and procuring supplies and services locally.

Hilson and Ovadia state that local content “is a key to building a robust indigenous technical base for, and developing domestic linkages to, the extractive industries.” Also, Okeke and Aniche clarify that “local content means the development of local skills, technology transfer, use of local manpower and local manufacturing.” However, for the purpose of this article, local content is defined as requirements of international oil companies (IOCs) or investors for giving priority to national companies, local suppliers and locally produced material, goods and services when sourcing technical inputs and human resources for petroleum operations; as well as for giving priority to local personnel, employment and skills development in the extractive industries value chain.

In the light of the above definitions, it is worth mentioning that the main aims of local content requirements are: protecting the indigenes in the host state; generating employment and business opportunities for the national or local personnel and companies; providing on-the-job learning, formal training opportunities and transfer of know-how; keeping the income and tax within the host state; and making sure the IOCs do not focus on their expatriates and indigenes. In order to avoid misalignments and to mitigate legal risks between host governments and investors, a legal framework on local content requirements shall be addressed and adopted clearly. Many oil-producing countries worldwide have established specific legal frameworks to foster and impose local content requirements. These legal frameworks may be included in national legislation such as laws and regulations or/and in different types of petroleum contracts throughout specific provisions, which vary from country

to country, or jurisdiction to jurisdiction. As Olawuyi states, Angola, Australia, Brazil, Ghana, Mexico, Iran and Nigeria have enacted comprehensive legislative frameworks dedicated to local content. On the other hand, in the Middle East and Northeast Africa region, local content provisions are often laid down in petroleum contracts, not comprehensively codified in domestic legislations. However, Subai clarifies that most countries around the world combine contractual and legislative approaches to local content development. They rely on local content legislation and combines the same with provisions in petroleum contracts.

When drafting contracts and regulating local content requirements, the government shall design and manage them appropriately to make them effective and work in practice, because LCRs may increase petroleum costs (which is fully recoverable costs in most PSCs) and reduce the amount of profit oil and consequently causes paying lower public revenues by IOCs. Besides, the term 'local' should be exactly defined in the host state's legislations or/and petroleum contracts, otherwise, various categories of people and entities must be given priority, as locals. In some countries 'local' refers to nationality or citizenship; in others, it refers to the locality or country where the oil and gas activities take place. More importantly, Acheampong, Ashong and Svanikier argue that the term 'local' can present its own set of challenges. They state that "...the entity performing petroleum extraction may be foreign-owned, but with a majority of its workforce being locals (nationals), whereas the locally owned entity may comprise a majority foreign workforce or may even be locally owned (by a national) but registered abroad." This distinction is indeed significant and could be a legal risk point if not properly clarified and handled.

The Kurdistan Region of Iraq has adopted local content frameworks in order to increase local industry participation in the petroleum sectors. However, it is not fully developed and no specific law on local content has been enacted to date in the Kurdistan Region. Generally, local content requirements are regulated and imposed by some provisions in the Kurdistan Region Oil and Gas Law No. (22) of 2007, the Kurdistan Regional Government (KRG)'s signed PSCs\* and its Model PSC. These local content requirements have been made legally mandatory, which imply that the involved IOCs in petroleum exploration and production activities in the Kurdistan Region are forced to give preference to equipment and materials available in, to subcontractors and personnel from the Kurdistan Region and other parts of Iraq.

Due to the cruciality of local content requirements, many of studies have evaluated local content frameworks of different oil-producing countries. However, there has still been a lack of analytical study for the local content framework of the Kurdistan Region of Iraq. Additionally, the local content framework of the Kurdistan Region has not defined the term 'local'. Nature, scope and methodology for implementing, measuring and reporting local content performance in the Kurdistan Region are not clear, which can result in

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\* Since 2006, the KRG has signed more than 60 PSCs with IOCs. For more information see R S Salih and A Yamulki, 'Petroleum Exploration and Production Contracts as Regulatory Tools: The Kurdistan Region Production Sharing Contracts' (2020) 101 Journal of Law, Policy and Globalization 165-184.

significant legal risks. Therefore, this article has the principal aim of critically analysing and arguing the local content framework of the Kurdistan Region in order to ascertain its legal complications. It also provides an analytical examination and survey of how local content requirements have evolved in the Kurdistan Region of Iraq. Thus, this article attempts to answer two significant questions, which are:

1. What are the main characteristics of the local content framework of the Kurdistan Region and what have been the outcomes of this framework?
2. What are the main negative provisions of the local content framework of the Kurdistan Region?

To answer the questions, this article is divided into five main sections. The first section introduces the study and defines the local content. Sections 2 and 3 critically appraise local content frameworks of the Kurdistan Region, which have placed obligations on contractors to give priority to local material, goods, subcontractors, personnel, training, and technological assistance. This is followed by Section 4, which examines the weak implementation of local content requirements in the Kurdistan Region. Finally, Section 5 concludes the study by highlighting the main findings and presenting our recommendations.

### ***Preference for Kurdish And Iraqi Materials, Goods and Subcontractors***

Oil-producing countries, especially developing countries, excessively depend on foreign goods and services for performing petroleum activities. Therefore, host governments have promoted local content requirements to ensure that local industries are given a chance to compete with foreign suppliers, through which investors are obligated to give priority to locally sourced services and goods or to purchase the goods and services needed for their project locally, when their price, quality, time of delivery and other terms are comparable with imported goods and services and also subject to availability.

The Kurdistan Region of Iraq's Oil and Gas Law No. (22) of 2007 is the main legislation providing the legal framework to govern and manage petroleum operations and all activities related to petroleum operations in the Kurdistan Region. To some extent, the Kurdistan Oil and Gas Law 2007 has regulated local content requirements in the Kurdistan Region. The law states that the acquisition of goods and services in the Kurdistan Region and other parts of Iraq shall be included in the application for an authorisation (petroleum contract), as one of the main conditions. Additionally, chapter eleven of the Kurdistan Oil and Gas Law 2007 entitled 'Local Participation' stipulates that authorised persons or contractors shall give preference to the bona fide and approved local companies by the Minister of Natural Resources of the KRG. The authorised persons shall also prefer to purchase local products and services that are competitive in price, quality and timely availability, from the Kurdistan Region and other parts of Iraq. Moreover, the law requires the Minister of Natural Resources to give preference to IOCs that partners with local companies. Despite the mentioned provisions, it is noteworthy that several crucial provisions are absent. For example, the Kurdistan Oil and Gas Law 2007 does not contain any provision that obligates contractors to submit a

report of their achievements in utilizing the Kurdistan Region and other parts of Iraq's goods and services during each year of the contract.

With regard to the provision of local goods and subcontractors, the KRG's Model PSC and its signed PSCs require the contractors to priorities available equipment and materials\* in and subcontractors\*\* from the Kurdistan Region and other parts of Iraq. Article 19 of the KRG Model PSC entitled 'Equipment and Materials' stipulates that:

The CONTRACTOR shall give priority to Equipment and Materials that are readily available in the Kurdistan Region and other parts of Iraq to the extent their price, grade, quality, quantity, specifications, purchase, delivery and other commercial and technical terms are comparable in all material respects with those generally available in the international petroleum industry.

Additionally, Article 22 of the KRG Model PSC entitled 'Subcontracting' stipulates that:

The CONTRACTOR shall give priority to Subcontractors from the Kurdistan Region and other parts of Iraq to the extent their competence, rates, experience, reputation, qualifications, specialties, credit rating and terms of availability, delivery and other commercial terms are, in the CONTRACTOR's sole opinion, comparable in all material respects with those provided by foreign companies operating in the international petroleum industry. Such Subcontractors must be bona fide Kurdistan Region companies not related to any Public Officer, directly or indirectly, and must have all necessary resources and capacity.

By reviewing and analysing signed PSCs of the KRG which are available publicly on the Ministry of Natural Resources' website, it can be observed that most of the signed PSCs have adopted the exact mentioned 'Equipment and Materials as well as Subcontracting' provisions that have been adopted by the KRG Model PSC. However, three signed PSCs by the KRG in 2011, have adopted more effective provisions and added that a subcontractor to be qualified as 'from the Kurdistan Region and other parts of Iraq' must be "organised under Applicable Law or the Laws of Iraq, domiciled in Iraq, and majority-owned and controlled by citizens of the Kurdistan Region or Iraq." However, these three PSCs do not mention that subcontractors shall not be related to any public officer.

Moreover, the signed PSA for South Sulaymaniyah Area in 2006 regulates the above- mentioned provisions very simply and only obligates the contractor to give preference to the acquisition of goods and services available locally in the Kurdistan Region, if they are offered on competitive terms and conditions regarding quality, price, and time of delivery. On the other hand, two PSAs,

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\* According to Article 19 (1) of the KRG Model PSC, equipment and materials mean all materials, equipment, machinery, tools, spare parts and any other items or goods required for the petroleum operations.

\*\* According to Article 1 (1) of the KRG Model PSC, Subcontractor means any entity of any contracting tier providing services and/or undertaking works relating to the petroleum operations directly or indirectly on behalf of, the contractor or any contractor entity.

which are signed at early phase by the Sulaymaniyah Administration in 2002 and 2003 respectively, two of the KRG' PSAs signed for Erbil and Tawke Blocks in 2004, and the PSA for Bina Bawi Block signed in 2006, have not adopted any provision that requires contractors to give priority to local equipment, materials and subcontractors. Moreover, the complete absence in the signed PSCs of the KRG is that under what procedure can IOCs procure goods or services from outside Iraq when they are not available locally.

It is clear that in most of the KRG's signed PSCs, the minimum level of local content to be achieved for each category of goods that are produced or available in the Kurdistan Region or other parts of Iraq and for services rendered by Kurdish or Iraqi citizens or local companies, is not expressed as a percentage or with a timeframe; rather, the obligation is simply to give priority to equipment, materials, and subcontractors from the Kurdistan Region and other parts of Iraq when their price, quality, and other terms are comparable. Therefore, the KRG has adopted the flexible approach, which is particularly important for IOCs. In contrast, some countries' petroleum contracts have expressly set out some specific fraction of or a specific percentage of targets for local goods and services that the project must meet. For example, the Libya Model PSC of 2006 has obligated the operator to spend at least 50% of its approved budget on supplies, goods, equipment and services available locally.

Additionally, it is possible to require IOCs to give priority to local goods and services even if their costs are within a certain percentage of alternative suppliers available internationally. For instance, under two Gambia Petroleum License signed in 2012, the licensee shall use goods and services produced or provided in the Gambia, even if available at prices that are not more than ten percent (10%) greater than those offered by an international supplier. Ghana Concession Agreements have dealt with this subject more accurately, which state that the contractors, its sub-contractors or other entities which cooperate with them shall:

- a) acquire materials, equipment, machinery and consumer goods produced or provided in Ghana by an Indigenous Ghanaian company ... which are no more than ten percent (10%<sup>\*</sup>) higher than the imported items including transportation and insurance costs and customs charges due;
- b) contract local services provided by Indigenous Ghanaian companies to the extent to which they ... are no more than ten percent (10%) higher than the prices charged by foreign contractors for similar services.

More importantly, a question that should anticipate is: what is the best solution in the benefit of the KRG where certain goods and services are lacking or not available in the Kurdistan Region or other parts of Iraq? In this situation, it is recommended that the KRG, throughout PSCs impose an obligation on IOCs to procure such goods or services from IOCs that have entered into joint

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\* This rate is 15% in Exploration and Production Sharing Contract of the Islamic Republic of Afghanistan for Sanduqli Block between the Government of the Islamic Republic of Afghanistan and Dragon Oil (Sanduqli) Limited, TP Afghanistan Limited, Ghazanfar Investment Ltd., 2013, Article 21(2).

ventures with a local company, whereas the local company holding at least 30-50 percent of the joint venture.

### ***Preference for The Employment of Kurdish And Iraqi Personnel and Skills Development***

In most developing countries, there is a lack of local skills, technical and management competencies. However, local content requirements seek to promote local employment and encourage skills development in the extractive industries value chain. Therefore, by imposing local content requirements properly, host states create more employment opportunities for the local workforce in non-government sectors; transfer technical expertise, skills and know-how from IOCs to the host country; improve endogenous technology, skills and capacity of local employment; consequently, increase the degree of local benefits from the extractive industry.

In terms of employment and skills development, under the Kurdistan Oil and Gas Law 2007, training and giving preference in local employment by the IOC is one consideration in selecting IOCs. The law states that an application for an authorisation shall include conditions for training of, and giving preference to the Kurdistan Region and other Iraqi citizens in employment in oil and gas operations. Chapter eleven of the Kurdistan Oil and Gas Law 2007 also states that authorised persons shall give preference to the employment of persons who have the qualifications, competence and experience required for performing petroleum operations, from the Kurdistan Region and other parts of Iraq. Moreover, to ensure that the capabilities of the local workforce are enhanced over time, according to Article 45 of the law, training programs for local employees of the contractor should be defined clearly and be included in the petroleum contracts. The programs may be carried out in the Kurdistan Region, other parts of Iraq or other countries. The petroleum contracts may contain scholarships and other financial support for education. Besides, a commitment by contractors to maximise knowledge transfer to the people of the Kurdistan Region and to establish any necessary facilities for technical work in the Kurdistan Region shall be included in petroleum contracts, where possible. However, the Kurdistan Oil and Gas Law 2007 does not contain any provisions relating to the manner of preferential employment, skills development and procurement.

Article 23 of the KRG Model PSC entitled 'Personnel, Training, and Technological Assistance' requires the contractor and its subcontractors to give preference to personnel from the Kurdistan Region and other parts of Iraq that they have the necessary technical capability, qualifications and experience. Otherwise, if they do not have the requisite conditions, the contractor and its subcontractors have the right to hire foreign personnel. However, the Model does not stipulate whether the contractor or the KRG shall have the discretion to determine whether local personnel is sufficiently qualified. Under Article 23, during the contract period, the contractor is obligated to consider the secondment of the KRG personnel to the contractors and vice versa. The contractor shall provide advance funding to the government for recruitment and secondment of government-selected local

personnel. In addition, training and the development of local expertise and know-how obligations are included in petroleum contracts. For example, Article 23 requires the contractor to train its local personnel, in a planned way, to improve their knowledge and professional qualifications. The training includes the transfer of knowledge of petroleum technology and the necessary management experience, which is permitted by applicable law and agreements with third parties, and subject to confidentiality agreements. Also, the training plan may include training for the KRG's personnel. The contractor shall provide all the training plan's cost.

Additionally, the KRG Model PSC stipulates that:

Before the end of the first Contract Year, the CONTRACTOR shall provide to the GOVERNMENT in kind technological and logistical assistance to the Kurdistan Region petroleum sector, including geological computing hardware and software and such other equipment as the Minister of Natural Resources may require,

As a main legal complication and negative point, under the KRG Model PSC, all the above costs shall be considered petroleum costs and shall be recovered. For example, the Syrian PSC for Block IX states that training budget costs and expenditures shall not be cost recoverable. It is noteworthy that the same mentioned 'Personnel, Training, and Technological Assistance' provisions, which are adopted by the Model PSC of the KRG have been followed by most of the KRG's available and signed PSCs. However, the adopted costs for personnel, training and technological assistance vary from contract to contract.

More importantly, the four earliest signed Kurdistan PSAs have not adopted 'Local Personnel, Training, and Technological Assistance' provisions and not required the contractors to give priority to local personnel and skills development, which are PSAs signed for Taq Taq and Pulkhana Blocks in 2002 and 2003 respectively as well as for Erbil and Tawke Blocks in 2004. Contrarywise, they state that contractor shall be entitled to bring foreign employees to Kurdistan in connection with the performance of petroleum operations and "[t]he Contractor, its Affiliates, its Subcontractors, agents or brokers however, shall enjoy full freedom in the selection and assignment of their employees." Also, the signed PSA for Bina Bawi Block in 2006 have not adopted 'Local Training, and Technological Assistance' provisions, but imposed local personnel provisions, which very simply and without details stipulates that "[t]he Contractor, its Affiliates, and its Subcontractors however shall, with respect to Petroleum Operations carried out within the KRG, ... shall give preference to KRG citizens as long as they are capable in terms of knowledge, technical qualities and experience."

In sum, the adopted 'Local Personnel, Training, and Technological Assistance' provisions in Kurdistan PSCs mandate the contractors to prioritise the suitably qualified personnel from the Kurdistan Region and other parts of Iraq as well as require training programs and their costs for improving knowledge and ability of the local personnel (training costs have been considered as petroleum costs), but there is no general target or timeframe. In contrast, several utilized PSCs worldwide have set specific percentage targets

for positions reserved to local personnel and set the timeframe. For instance, under a contract of Lebanon of 2018, right holders, their contractors and subcontractors shall hire Lebanese nationals not less than 80% of the aggregate number of employees to carry out petroleum operations prior to the beginning of the exploration phase in the contract area. One of Nigeria PSCs of 2007 states that the contractor shall ensure that at 10<sup>th</sup>, 15<sup>th</sup> and 20<sup>th</sup> year after the effective date, the number of Nigerian citizens employed by the contractor in petroleum operations in managerial, supervisory and other professional positions shall reach at least 75%, 80% and 85% respectively. The Côte d'Ivoire PSC for Block CI-708 stipulates that the IOC shall employ at least 80% and 90% of Ivoirian personnel three years and five years after the start of commercial production respectively; if this does not meet, the government may require the IOC to establish a training program in order to achieve the mentioned target and pay an annual amount of not less than US\$ 500,000 which is not recoverable as petroleum costs.

More importantly, the Kazakhstan Petroleum Exploration License for Zharkamys West-I blocks has set specific percentage targets for using Kazakhstani staff and set the timeframe, as shown in Table 1. The license states that during the exploration of hydrocarbons it is obligatory to use Kazakhstani staff as follows:

**Table 1:** Staff Breakdown (%) Versus Total Number of Employment in One of Kazakhstan Exploration License

Exploration Period	Top Managers	Line Managers	Specialists	Skill Workers
First Two Years of Exploration				
Kazakhstani	50	70	90	100
Expatriates	50	30	10	0
Third and Fourth Years of Exploration				
Kazakhstani	60	80	100	100
Expatriates	40	20	0	0

**Source:** The Kazakhstan Exploration License for Zharkamys West-I Blocks Between the Republic of Kazakhstan (Competent Authority) And Falcon Oil and Gas Ltd., 2007, Article 7(2)9.

The Equatorial Guinea PSC for Block S, which was signed in 2017 has set specific percentage targets for using Equatoguinean Personnel more accurately and in more detail, as shown in Table 2. The PSC states that at the beginning of the operation of development and production, the operator shall ensure priority of employment of Equatoguinean qualified personnel at all levels of its organization, according to the following table:

**Table 2:** Preference to Employment and Empowerment of Equatoguinean Personnel

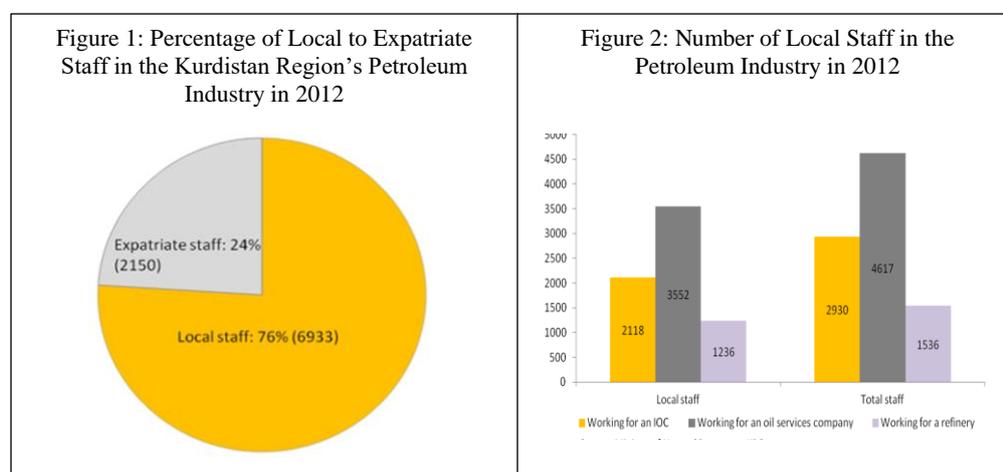
Positions	Percentage of National	Percentage of Expatriate

	Employees	Employees
Total number of employees	75%	25%
Technical and professional positions (Geologists and engineers, legal experts, financial experts, safety, health and environment)	60%	40%
Supervision and management positions	50%	50%
Technicians working offshore (including Safety, Health and Environment)	85%	15%
Support and administration services	100%	0%

**Source:** The Republic of Equatorial Guinea PSC for Block W Between the Republic of Equatorial Guinea and Guinea Ecuatorial De Petroleos, Kosmos Energy Equatorial Guinea, 2017, Article 23(2)1

### *Implementation of Local Content Requirements in The Kurdistan Region*

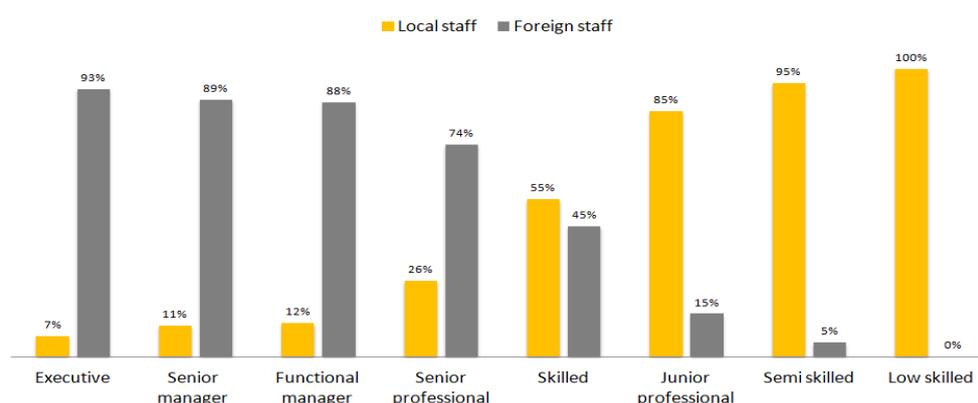
Through adopting local content requirements, one of the KRG's overarching policies is to achieve a high level of localisation of the oil and gas workforce, goods, and subcontractors as well as to train and develop the local workforce's skills. Concerning the Kurdish and Iraqi materials, goods, and subcontractors, it is noteworthy that no reports, data and information have been made available to the public. On the other hand, in terms of local personnel, according to the only available data on the website of the Ministry of Natural Resources, as revealed in Figure 1, the local staff covered 76% of total staff worked in Kurdistan Region's oil and gas industry in 2012 and the number of local staff worked for IOCs in the same year was 2118 out of 2930, as shown in Figure 2.



**Source:** Ministry of Natural Resources, 'Local Content' <<http://archive.gov.krd/mnr/mnr.krg.org/index.php/en/the-ministry/local-content.html>> Accessed 15 April 2021.

McIntosh, adviser on local workforce development at the KRG's Ministry of Natural Resources in a publication stated that at the senior management level in 25 IOCs operating in the Kurdistan Region, only about 10% are Kurds because the petroleum industry is not an old industry in Kurdistan and most senior managers need more than 20 years' experience. However, at the Junior professional, semi-skilled and low-skilled levels, 85%, 95% and 100% respectively, are Kurds, as illustrated in Figure 3. The figure clarifies that the Kurdish representation in the lower-skilled roles (including recent graduates) is high, but at senior levels most roles are not filled by Kurdish. IOCs still very much rely on senior expatriate staff and saying that they cannot find the quality of graduates they need.

**Figure 3:** Local and Foreign Staff Breakdown by Job Level: December 2014



**Source:** Ministry of Natural Resources Cited in I McIntosh 'Who Is Going to Manage the Oil and Gas Industry of The Future in Kurdistan?' < <http://archive.gov.krd/mnr/mnr.krg.org/index.php/en/press-releases/438-who-is-going-to-manage-the-oil-and-gas-industry-of-the-future-in-kurdistan.html> > Accessed 15 April 2021.

According to 'The Oil and Gas Year: Kurdistan Region of Iraq 2014', as shown in Table 3, in 27 oil companies operating in the Kurdistan Region, the percentage of the petroleum industry workforce made up of locals is 63% (2877 out of 4532). However, by excluding the KAR Group (Khurmala) and Petroquest, the total percentage of the local workforce decreases to 59.86%; at the executive level, only one out of nine positions and at the managerial level, five out of 56 positions are filled by local employees. 451 out of 510 junior professional positions are filled by locals and out of 792 lower-skill levels, only 96 are foreign.

**Table 3:** Local Employment by International Oil Companies and Proportion of Local to Expatriate Staff According to Skill Level In 2014

Local employment by international oil company, 2014				Proportion of local and expatriate staff according to skill level, 2014									
IOC	Total staff	Total local	Percentage local	IOC	Total staff	Total local	Percentage local	Level:	Local staff	Expatriates	Total	Percentage local	Percentage expatriate
Khurmala	424	418	99%	Oil Search	244	105	43%	Executive	1	8	9	11.11%	89.89%
HKN Energy	246	208	85%	Hunt Oil	58	25	43%	Senior manager	5	49	54	9.26%	90.74%
Dana Gas	500	392	78%	Genel Energy	91	36	40%	Functional manager/superintendent	53	304	357	14.85%	85.15%
DNO	561	418	75%	KNOC	20	8	40%	Senior professional	225	611	836	26.91%	73.09%
Gas Plus Khalakan	18	13	72%	Marathon Oil	68	26	38%	Skilled	425	491	916	46.40%	53.60%
TTOPCO	586	411	70%	Total	22	8	36%	Junior professional	451	59	510	88.43%	11.57%
Gulf Keystone	243	168	69%	ExxonMobil	102	35	34%	Semi-skilled	600	29	629	95.39%	4.61%
WesternZagros	232	144	62%	Talisman Energy	129	43	34%	Unskilled	696	96	792	87.88%	12.12%
OMV	106	65	61%	Komet Group	22	7	32%	Total	2,456	1,647	4,103	59.86%	40.14%
Petroquest	5	3	60%	Dryx Petroleum	79	23	29%						
Repsol	103	56	54%	Chevron	147	41	28%						
Mol Group (Kalegran)	123	62	50%	Afren	58	14	24%						
TAQA	195	96	49%	Gazprom Neft	57	9	16%						
Hess	93	43	46%	Total	4532	2877	63%						

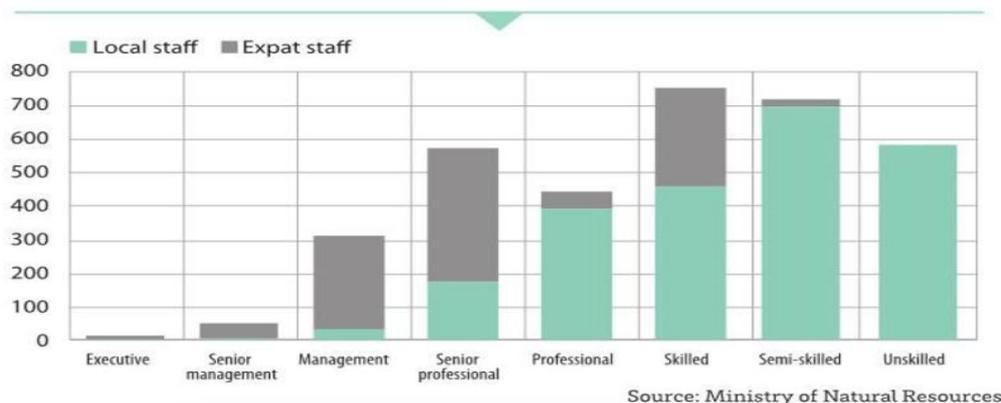
Key: Highlighted companies in red are late entrants while companies in grey are early entrants

Source: KRG, Ministry of Natural Resources

**Source:** Ministry of Natural Resources Cited in The Oil and Gas Year, *The Oil and Gas Year: Kurdistan Region of Iraq 2014* (Wildcat International FZ-LLC, Neuilly Seine 2014) 96.

From 2015, operators in the Kurdistan Region have cut back their local staff and the number of local positions at almost all levels has reduced, as shown in Figure 4, compared to the above 2014 data. However, the 2015 data clarifies that the operators have overall not reduced local staff disproportionately while they have cut back their workforce. In 2016, the operators reported an overall reduction of 18% in the total workforce. This reduction is happened mainly due to the relinquishment of a significant number of blocks by IOCs because of the beginning of the fight against the Islamic State of Iraq and Syria (ISIS) in Iraq, the dramatic mid-2014 fall in oil prices, lack of exploration and/or production success.

**Figure 4:** Local Staff and Expatriates Employed in The Kurdistan Region’s Petroleum Industry In 2015



**Source:** Ministry of Natural Resources Cited in The Oil and Gas Year in The Oil and Gas Year, *The Oil and Gas Year: Kurdistan Region of Iraq 2016* (Wildcat International FZ-LLC, Neuilly Seine 2016) 102.

Regarding skills development, according to the official website of the KRG's Ministry of Natural Resources, the Ministry ensures that contractors which have invested in the Kurdistan Region petroleum sector, "...to contribute to skills and knowledge development in different ways, for example through funding universities and technical institutes' programmes in the Kurdistan Region, providing work internships, or offering gifted students petroleum studies scholarships abroad." Also, the contractors are helping to build local expertise in different ways. For instance, DNO has employed a number of the first petroleum department graduates from Zakho Technical Institute. Eight students from the Kurdistan Region have been fully funded by MOL to take MSc degrees in petroleum-related subjects at two of Hungary's best universities, and generous financial contributions have been made to the American University of Iraq Sulaimani by Genel Energy and ShaMaran Petroleum.

In the light of the above clarification, it can be said that local content requirements in the Kurdistan Region have not been able to engage the local staff in the highly technical, skilled and managerial positions. The Kurdistan Region still struggles with a shortage of skilled manpower. It suffers from poor quality of the training system. The level of education relevant to the petroleum industry is not high and Kurdistan graduates cannot meet requirements in the petroleum industry. Therefore, it is crucial for the KRG to develop the senior staff to take over the reins of the business and obliges IOCs to recruit, train and develop the young Kurdish engineering and geoscience graduates, as well as help to improve the quality of education that the graduates receive from the universities in the Kurdistan Region.

Finally, it is worth noting that one key reason for the lack of clarity on the scope and content of local content requirements in the Kurdistan Region is the absence of an essential law relating to and institutions for monitoring and enforcing local content requirements. Therefore the KRG needs to enact a law entitled 'Local Content Law of the Kurdistan Region – Iraq', which shall contain several important provisions relating to defining the concept of local and local content clearly, giving consideration to Kurdish independent contractors in the award of contracts in all petroleum projects; giving exclusive consideration to Kurdish local service companies, personnel and goods manufactured in the Kurdistan Region. The law also shall regulate more obvious subjects such as: technology transfer; patronising Kurdish lawyers, banks, insurers and media practitioners; limiting the expatriate workforce for management positions; providing training to Kurdish where they are not employed for a period of time; submitting a local content plan and annual performance reports to the KRG's Ministry of Natural Resources; and paying a fine by defaulting companies when a breach of this law and contract occurred. More importantly, the KRG needs to set up a separate authority entitled 'The Kurdistan Region Local Content Development and Monitoring Board' which shall be responsible for local content management and mandated

to oversee, monitor and implement the provisions of Local Content Law, as well as set up 'The Petroleum Technology Development Fund'.

## CONCLUSION

The Iraqi Kurdistan Region has adopted and imposed local content requirements throughout a number of provisions in the Kurdistan Region Oil and Gas Law 2007 and the KRG's signed PSCs. However, it is not fully developed and no specific law on local content has been enacted to date in the Kurdistan Region, as well as nature, scope and methodology for implementing, measuring and reporting local content performance in the Kurdistan Region are not clear. Therefore, this article highlighted and critically analysed the local content framework of the Kurdistan Region, revealed their complications and also illustrated outcomes of the implication of this legal framework and reached several specific findings concerning each of the study questions as the following.

A number of provisions of the Kurdistan Region Oil and Gas Law 2007 and most of the KRG's signed PSCs, generally obligate IOCs to give preference to Kurdish and Iraqi materials, goods and subcontractors which are competitive in price, quality and timely availability and the minimum level of materials, goods and subcontractors to be achieved is not expressed as a percentage or with a timeframe. In contrast, some countries' petroleum contracts have expressly set out specific percentage targets for local goods and services that the project must meet or they require IOCs to give priority to local goods and services even if their costs are within a certain percentage of alternative suppliers available internationally, for example, 10% higher than those offered by an international supplier. This study has also demonstrated that a few earliest PSAs of the Kurdistan Region have not adopted any provision that requires contractors to give priority to local equipment, materials and subcontractors, as well as the Kurdistan Region Oil and Gas Law 2007 and all of the KRG's signed PSCs do not contain any provision that obligate contractors to submit a report of their achievements in utilizing the Kurdistan Region and other parts of Iraq's goods and services during each year of the contract.

The Kurdistan Region Oil and Gas Law 2007 and most of the KRG's signed PSCs require IOCs to prioritise the employment of Kurdish and Iraqi personnel who have the qualifications, competence and experience required for performing petroleum operations. They also mandate IOCs to carry out training and skills development programs for local staff and provide technological and logistical assistance to the KRG, but they do not contain any provisions relating to the manner of preferential employment, skills development and procurement as well as there is no general target or timeframe. In contrast, some oil-producing countries through their petroleum contracts have set specific percentage targets for positions reserved to local personnel and set the timeframe. Additionally, four of the earliest signed Kurdistan PSAs have not required IOCs to give priority to local personnel and skills development.

Moreover, this study identified that the local staff covered 76% of total staff worked in Kurdistan Region's oil and gas industry in 2012, which decreased to 63% in 2014 and there was more reduction in 2016. Local content requirements in the Kurdistan Region have not been able to engage the local staff in senior levels but the Kurdish representation in the lower-skilled roles is high. The Kurdistan Region still struggles with a shortage of skilled manpower. It suffers from poor quality of the training system, and Kurdistan graduates cannot meet requirements in the petroleum industry. Therefore, IOCs still very much rely on senior expatriate staff.

After summarizing the main findings of this study, to minimise legal contentions and risks relating to local content requirements of the Kurdistan Region, several significant recommendations, which should be considered by the Kurdistan Region, are presented, as follows:

1. The Kurdistan Region needs to enact a clear and comprehensive local content law entitled 'Local Content Law of the Kurdistan Region – Iraq', establish a collaborative focal institution to monitor and coordinate all aspects of the implementation of the mentioned law entitled 'The Kurdistan Region Local Content Development and Monitoring Board' as well as set up 'The Petroleum Technology Development Fund';
2. It is recommended that the KRG amend its PSCs' provisions with respect to local content and set specific percentage targets for using local staff, materials, goods and subcontractors with a timeframe.
3. In the situation where certain goods and services are not available in the Kurdistan Region or other parts of Iraq, it is recommended that the KRG throughout PSCs impose an obligation on IOCs to procure the goods or services from IOCs that have entered into joint ventures with a local company, whereas the local company holding a certain percentage of the joint venture;
4. It is also recommended that KRG's PSCs impose a requirement on IOCs to submit annual reports on local training and employing, and annual reports on achievements in utilizing Kurdish goods and services and technology transfer;
5. It is crucial for the KRG to develop the senior staff; obliges IOCs to recruit, train and develop the young Kurdish graduates, and help to improve the quality of universities in the Kurdistan Region.

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