

# **Supporting Local Product and National Companies at Kuwait National Petroleum Company**

## **Approved Mechanism and Recommendations**

Kuwait National Petroleum Company (KNPC) is committed to the support of local products and national companies by implementing the clauses of the Mechanism on "Local Industry Support" in the Oil Sector, which was issued by Kuwait Petroleum Corporation (KPC) in February 2004; and also by implementing other supplemental recommendations that are approved by KNPC in the annual reports presented to KPC.

### **First: Mechanism on "Local Industry Support" in the Oil Sector – KPC (February 2004)**

(Notice: Some clauses of the Mechanism were modified for clarity without altering the meaning. Also, in order to focus attention on the clauses of the Mechanism, the following sections in the original document were removed herein: "Introduction", "Mechanism Preparation Method" and "Appendices".)

#### **1. Preparation of specifications**

1. Do not stipulate special specifications unless it is necessary; and take into consideration, while preparing the specifications, the specifications of the local product if that product is accepted by the purchaser and if its source is qualified.
2. Do not specify a certain trade mark, a manufacturer name, a production company, or requirements pertaining to certain materials or specific items unless it is necessary.
  - a. In the case where it is not possible to precisely stipulate the specifications of some materials or specific items, then state at least three brand names, manufacturers, or production companies.
  - b. If the number of brand names or manufacturers is less than three (in "a" above), the statement "or equivalent specifications, quality, and market reputation" is to be included alongside the brand, company, or manufacturer name.

#### **2. Determination of suppliers or contractors**

1. In the case of using a limited list from among qualified contractors and suppliers, a reasonable percentage of local companies and manufacturers should be included in such a list. And if this leads to a monopolistic behaviour, the tender must be cancelled and then re-issued to the whole list of qualified vendors or contractors.

**3. Preparation of technical, commercial and contractual documents of a tender/momarasah and the list of qualified contractors and suppliers**

1. Include lists of local suppliers and contractors, who are qualified as subcontractors, in all tenders/momarasah documents that are open to general contractors.
2. Include in all tenders/momarasah documents a clause that requires the main supplier and contractor, and the subcontractor to give priority to local products over the similar imported products when the local product meets the required specifications, production capacity and delivery deadlines; and when its price is less than or equal to that of the imported one under the same economic conditions. In case the supplier or contractor violates this requirement, he must submit a justification that is acceptable to the requesting party.
3. Include in all contractual documents that are signed with main suppliers, contractors and subcontractors a condition requiring:
  - a. Commitment that the share of the local products and activities assigned to local manufacturers and contractors, as part of the activities of the signed major projects, should constitute a reasonable percentage to be determined by the requesting party with the condition that its value should not be less than 20% of the total value of the signed contract without violating any other clauses of this Mechanism.
  - b. Commitment, when bidding, to submit a list revealing the estimated volume, type and value of the local products to be procured or used during the execution of the contract, along with the activities to be assigned to local suppliers and contractors.

**4. Tender/momarasah submission and receipt of bids from suppliers or contractors**

Null.

**5. Evaluation of bids by KNPC**

1. If the total prices for all bids are close, preference is given to the supplier or contractor with the highest proportion of total estimated value of local products and activities assigned to local suppliers and contractors to the total price of the offer. This clause is to be included in the contractual documents of the tender/momarasah.

**6. Recommendation of tender/momarasah awarding or contract signing**

Null.

**7. Execution**

1. The supplier and contractor submits periodically as part of his progress reports a statement that clarifies the procured local products and the activities subcontracted to local contractors as a percentage of the total materials and activities of the contract.
2. The Internal Audit Department of KPC is to verify the extent of KNPC's compliance with the Mechanism.

## **8. Recommendations**

- 1.** KNPC is to issue annual reports revealing its consumption of imported materials that can be manufactured locally for the purpose of providing information to the Kuwaiti private sector and encouraging it to invest in these areas.
- 2.** KNPC is to issue a quarterly bulletin of future projects for the national manufacturers/contractors awareness and follow-up.
- 3.** During the preparation of its budgets (capital and operating) and five-year plans, KNPC is to estimate the value and percentage of work and supplies expected to be assigned to local companies/manufacturers and contractors. Also, at the end of each fiscal year, KNPC is to submit to KPC a statistical statement showing the actual value and proportion compared to the planned ones.
- 4.** Encourage relevant organizations (KUI & PAI) to do the following:
  - a.** Develop the criteria for identifying the local product that is worthy of support, and the list of manufacturers who meet these criteria in order to be used for the qualification of manufacturers.
  - b.** Encourage local manufacturers and contractors to apply for qualification at KNPC and submit their products to KNPC for verification of the purpose.
- 5.** Quickly develop unified lists of qualified companies and manufacturers as well as qualified suppliers and contractors that are classified into local, gulf, and international. This is to be used by KPC and its subsidiaries during the material procurement process, projects execution, and maintenance and operation.
- 6.** Encourage local manufacturers and companies to partner with similar and complementary foreign companies (in terms of specialisation) for the execution of oil projects. This is to be done through presenting projects and studies to local companies with a list of qualified international companies; and then taking into account the partnership factor when awarding tenders.
- 7.** To facilitate the transfer of technical expertise, encourage foreign contractors to cooperate and partner with the local contractors through giving them preference when evaluating offers.
- 8.** Provide incentives to the main contractor for using locally manufactured materials and assigning activities to local suppliers and contractors in his project. This is to be done for example through all or some of the following methods:
  - a.** Provide non-monetary incentives to suppliers or contractors who achieve a percentage of local products and locally assigned activities that is higher than what is agreed to in the signed contract.
  - b.** Develop a list of suppliers and contractors who comply with using local materials in order to give them preference in KNPC tenders. Also recommend the exclusion of contractors who do not comply with this requirement.
- 9.** Hold periodic meetings with private sector companies to listen and exchange views.

**10.** Submit annual reports to KPC on the progress in implementing the Mechanism, the positives and negatives of its implementation, and the extent of its acceptance by suppliers and contractors.

**11.** Reconsider the clauses of the Mechanism after five years of implementation.

**9. Additional Recommendations**

(The following recommendations appeared in the KNPC progress report submitted to KPC in May 2005)

- 1.** Award long-term contracts based on value and volume of work to local manufacturers and agents of general materials, and deal with several suppliers at the same time to allow for competition and equal opportunity.
- 2.** Reduce financing difficulties.
- 3.** Reduce the qualification cycle of local contractors for one million KD projects, as well as local vendors.