

Qatar Petroleum's Tawteen initiative and its Impact on Doing Business with Qatar Petroleum



Qatar Petroleum's (QP) Tawteen initiative includes a new localisation program (In-Country Value - ICV) which was announced in 2019. QP's ICV program is the fourth localisation program among the six member countries of the Gulf Corporation Council. The program aims at maximizing sustainable in-country value creation, develop local suppliers, upskill local talent, and promote in-country private investment. This briefing gives an overview of QP's ICV program and looks its implications for doing business with QP.

1. What is Tawteen?

Tawteen is a supply chain localization program for the energy sector in Qatar led by Qatar Petroleum (QP) with the participation of all the companies operating in the energy sector in Qatar.¹ The Program consists of three key pillars:

- Creation of new investment opportunities;
- Supplier and supply chain development; and
- an In-Country Value (ICV) policy.

The ICV policy has the following aims:

- Support the realization of Qatar National Vision 2030 by attracting companies engaged in knowledge and technology-based businesses;
- Establish sustainable and competitive in-country suppliers to meet the requirements of Qatar's energy sector; and
- Support the growth and diversification of Qatar's economy.

Like other localisation programs in the region, QP's ICV program aims to foster the development of the sector's local supply chain and to expand the small and medium enterprises base through diversification of the local economy by encouraging investments. The program focuses on strategic sectors, such as subsurface, engineering services, maintenance, repair, & overhaul (MRO), digital technologies, chemicals & metals, and light equipment, business services, & other, hence covering the whole supply chain.

Unlike other localisation programs in the Gulf, QP's ICV program has identified anchor companies for the strategic sectors (e.g., McDermott is the anchor company for the engineering services).

Suppliers are asked to retrieve an ICV score, which is based on an ICV formula. Considerable efforts were made to build on best practice from both, Saudi Aramco's IKTVA and ADNOC's ICV program. This, however, refers more to the design of the spreadsheet(s)

¹Other companies are Qatargas, Qapco, Noth Oil, Shell, Qatar Steel, Oryx, Total, Dolphin

Energy, Oatalum, Qchem, Oxy, and Qatar Electricity & Water co.

than the operational applicability and strategic intent.

2. Why now?

The ICV program (as part of the Tawteen initiative) was launched in February 2019. The program, however, became operational only in end 2020 after a lengthy and detailed design phase that saw extensive interaction with national and international pilot phase participants from the energy sector in the development of the ICV Scorecard and Plan development.

The implantation of QP's ICV program follows a general trend in the region. After Oman, Saudi Arabia and the United Arab Emirates, Qatar is the fourth Gulf country with a localisation program.

3. What are the key elements of QP's ICV program?

QP's ICV includes several mechanisms that should be considered when engaging with QP, namely

- ICV Formula;
- ICV Scorecard;
- ICV Plan; and
- ICV Plan Tracker.

ICV Formula

For the ICV scoring, Tawteen is based on a formula that considers (a) goods & services, (b) training of workforce, (c) supplier development, and (d)

investments in fixed assets over the (r) total revenue in Qatar.

$$ICV \text{ Formula: } \frac{a + b + c + d}{r}$$

ICV Scorecard

To establish the baseline, that is to develop the initial ICV score, companies are required to complete the ICV Scorecard template which upon completion requires certification by one of the approved certifier firms.² Separate ICV Scorecards are required for legal entities registered in Qatar. The ICV Scorecard data is based on the latest 12-month audited financial statements, and is to be renewed annually, at a minimum.

It needs to be highlighted especially that Qatar is publishing the certified suppliers' ICV score on the Tawteen website. At the time of writing, approximately 600 suppliers have their commercial registration number, ICV score and expiration date as well as name and contact details published on the website.³ From a best practice point of view this is an improvement over the other Value-Add programs in the region as to both, transparency regarding the respective company ICV scores and operationability when identifying best possible matches as to ICV suppliers.

² Certifiers are third-party independent audit firms that will certify the ICV Scorecards and ICV Plans submitted by the suppliers. At present, there are 12 audit firms approved by QP.

<https://www.tawteen.com.qa/In-Country-Value/ICV-Certifiers>.

³ <https://www.tawteen.com.qa/In-Country-Value/Suppliers'-ICV-Database>.

The ICV certification process consists of three steps:

- i. Submission of the ICV data (ICV Scorecard) to a preapproved certifier;
- ii. Validation of the ICV Scorecard data by the certifier; and
- iii. Issuing of the ICV certificate to the supplier by the certifier.

It should be noted that the ICV certification process is heavily audit-driven and requires comprehensive data verification. Furthermore, the information required does not only relate to local spend, but to spend overall, regardless of origin.

ICV Plan

In addition to the ICV Scorecard, bidders are required to develop and submit a so-called ICV Plan. The ICV Plan template for project contracts has the same design elements as the ICV Scorecard and identifies the local content commitment to be achieved by a bidder at the end of the contract execution.

The ICV Plan is based on the ICV forecast for the contract duration (and applicable for selected contracts only) and is subject to an audit by a pre-approved ICV Certifier. In the case of a multi-year project, the ICV Plan will be reviewed at least once towards the middle of the contract period.

$$\text{ICV Plan Formula: } \frac{a + b + c + d}{\text{Contract Value (R)}}$$

ICV Plan Tracker

The ICV tools & templates also include an ICV Plan Tracker. Unlike the ICV Improvement Plan under ADNOC's

ICV program in the UAE, Tawteen does not require mandatory annual auditing of the ICV Plan progress against established targets. Tawteen verifies (and sanctions) the ICV Plan against ICV Actuals only post project completion. The ICV tracker is designed as an instrument to track actual spend during the contract execution in relation to the ICV Plan.

While the roll-out of the Tawteen ICV program has been designed with a realistic timeline for testing, comprehensive consultation with companies selected for the pilot phase, and an introduction phase, some aspects such as the role in the evaluation process, the ICV evaluation criteria in the bid process, and the operational link to other the Tawteen instruments (e.g., investment opportunities and supplier development) still requires clarification.

All tools require detailed information at an entity level. Extensive reporting and documentation are required (in-Qatar and out-of-country). Data gathering can be cumbersome as audits capture information that is not readily available in the accounts system. For auditing purposes as part of the 'Agreed Upon Procedures' (AUP) detailed and comprehensive documentation is required that go well beyond and above standard financial audit requirements. The AUPs require an average of 20% samples for auditing purposes. Re-certification of the ICV scorecard is on an annual basis.

Templates and Submission Guidelines

The templates differentiate between 'goods' and 'services' and require

diligent keying in of data. Data gathering for 'Workforce Training' and 'Supplier Development' is not self-explaining and requires thorough familiarity with the ICV submission guidelines. The fact that plan and tracker share the same document does not make application necessarily easier.

In some instances (e.g. manpower), a level of disclosure is required that might conflict with company confidentiality requirements. A duly filled out ICV Scorecard or ICV Plan provides a detailed picture of information that many suppliers would consider business confidential.

4. What are the key challenges under QP's ICV program?

Operational aspects

The application and impact of the ICV score within the bid process is yet to be defined. The ICV score will be one parameter during commercial evaluation, but how this parameter comes into play is not yet made available. A penalty system in place for suppliers who do not meet their ICV plan target as part of a contract has been announced, but details have not been announced.

It is possible that the ICV score is applied within the bidder selection process as follows:

Example:

The contract value is 100m and the ICV value is 20%. In this case, the so-called ICV bid value is 20m as an adjusted ICV score value.

Assuming that there are three bids:

- Bidder (a): QAR 100m – ICV value 20% (QAR 20m ICV bid value)
- Bidder (b): QAR 105m – ICV value 21% (QAR 22.05m ICV bid value)
- Bidder (c): QAR 110m – ICV value 22% (QAR 24.2m ICV bid value)

It can be assumed that competitive bids are to be within +/- 5 percent of the best commercial bid (L1): in this case Bidder (a): QAR 100m). In the example, Bidder (c) would be no longer considered for the 2nd round of a bid evaluation.

Bidder (b) would have the best ratio between price and ICV (21%), but it is not clear if the contract would be awarded to Bidder (a) or to (b) based on the best price within the ICV bid value or best ICV score within the ICV bid evaluation.

With reference to the ICV Provisional Sum / ICV Penalty calculation it is understood that up to 5% of the ICV value would be subject to penalty if the ICV target score is missed.

Example:

The ICV value is QAR 20m. If the final ICV value is only equivalent to QAR 15m, the bidder would be subject to a penalty of up to QAR 1m (5% of ICV value of QAR 20m). In case the difference between the ICV value planned and the ICV value delivered is lower there would be a pro-rata deduction.

The penalty application to the contract value appears to be as follows:

Contract values below QAR 200m have a 10% provisional penalty, contract

values above QAR 200m would have a provisional penalty percentage of 5%.

Monitoring of the ICV Plan will be at the mid-point and the end of the contract term. Suppliers will be responsible for getting their ICV Plan certified at the end of the contract term to ensure they have met their target. It will be seen how the ICV Tracker will come into play during project execution once actuals deviate from the Plan as it does happen with most multi-year project executions. It should be also noted that no definition is provided as to how the end of the contract is defined.

ICV Auditor

The ICV Auditor is responsible for developing the certification process, which includes the AUP, the factual findings report, the memorandum of understanding, the request for information list, and the ICV certifiers guidelines.

The ICV Auditor is responsible for conducting audits on the certifiers. The certifiers are appointed by QP “to ensure the fairness and accuracy of the certification process.”⁴ This ensures that the ICV certification policies, procedures, and processes are followed, and that certifiers are meeting the quality and accuracy standards required.

Link to Investment Opportunities and Supplier Development initiatives

As mentioned earlier, the Tawteen program includes as two of the three main

pillar new investment opportunities and supplier initiatives.

Unfortunately, the connection between the ICV program and the aforementioned pillars is not transparent. Especially the connection between the supplier development identified in the context of the ICV and the local supplier development program is yet to be explored. No system seems to exist that draws from the sourcing requirements of suppliers of QP and the supplier development opportunities.

Key initiatives under the supplier and supply chain development include the following:

- i. **Information Sharing:** This includes information on supply chain investment opportunities, spend forecasting and provision of purchasing demand for the coming years.
- ii. **Engagement:** Under the Tawteen initiative suppliers will be engaged through forums to provide a platform for suppliers and energy sector companies to establish collaborative relationships.
- iii. **Business Process Improvements:** This aims at improvements to contracting and procurement policies, standards, and procedures. The intention is to harmonize policies and processes cross the energy sector.
- iv. **Technical and Business Development Support:** This initiative is aimed at Small and Medium

⁴ <https://www.tawteen.com.qa/FAQ>.

Enterprises (SMEs) through the provision of assistance on technical, business, and operational aspects of their business to improve performance and competitiveness.

Connecting these initiatives with strategic sourcing information obtained through supported access from the ICV information gathered could create a viable instrument for supplier development and if designed in a proper way could serve as a strong conceptual, strategic, and financial collaboration between the ICV parties.

It remains to be seen how either through the local supplier development program or the SME development can be delivered to best benefit the ICV objectives. While mentioned in the context of every local content program, supplier qualification requirements, vendor approval, product, and production facility endorsement processes do not line up easily for SMEs in the energy sector environment, a dedicated special purpose vehicle supporting start-ups and innovative SMEs might prove a more successful approach.

5. Conclusion

Bidders interested in doing business with QP are expected to comply with the ICV requirements, processes, and procedures. Given its complexity and documentation reporting requirements it is advisable to involve an approved ICV Certifier early in the process and establish adequate in-house capacity to engage in the process.

Suppliers might want to establish ICV management processes as well as data collection and management systems that can collect the required information. Aligning data collection with existing reporting and management systems will help suppliers to overall manage external and internal processes.

The project based ICV Plan design requires diligent planning and management, especially with regard to the ICV Plan Tracker, as the auditing process requirements do not align with project execution requirements.

Companies will have to establish cost control reporting structures that not only correspond to project management but also to ICV requirements for the tracking of the ICV Plan. Capturing these expenses (e.g. for training and/or establishing billing & documentation) can be onerous expensive to determine.

Investors and suppliers engaging in business with QP will need to keep in mind the following aspects:

- Dealing with QP directly or indirectly will have a different impact on bidder's ICV obligations.
- If dealing indirectly with QP (e.g., through an EPC contractor), suppliers will not be asked to come up with an ICV Plan. It is, however, expected that EPC contractors will pass on their obligations resulting from their ICV Scorecard and ICV Plan requirements (back-to-back) to suppliers. This should be kept in mind when drafting and reviewing respective agreements.



- With about 600 suppliers registered and certified under the ICV program, companies should still take note of the fact that certain

suppliers do not have an ICV score yet or are in the process of obtaining a score. Technically all suppliers start at a score of '0'.

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