

Speech By
YB Pehin Datu Singamanteri Kolonel (B) Dato Seri Setia
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Minister of Energy at the Prime Minister Office
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Bismillah Hirrahman Nirrahim,

Assalamualaikum Warahatullahi Wabarakatuh

Selamat Pagi and Good Morning,

Thank you for your time today and it is good to meet all of you today. Ever since my last speech on Local Business Development (LBD) about three months ago, I often ask myself if it is going to disappear into thin air as other things. Today we are here today to show how serious we are on LBD through this new Directive No. 2 i.e. LBD Framework. I am pleased to announce that with the consent of His Majesty the Sultan and Yang Di-Pertuan Brunei Darussalam, the new Directive No. 2 – LBD Framework has been issued by Energy Department at Prime Minister's Office (EDPMO) on 1st February 2012.

The good news is that over the next two years BSJV and TOTAL will spend B\$ 5-6 billion and we want to see spin-offs here. The LBD Framework Directive is timely to ensure maximum economic spin-off from this.

There are **THREE main objectives** of this LBD Framework Directive for oil and gas industries and they are as follows:-

- i. Increase country's economy through use of local goods and services.
- ii. Provide local employment.

- iii. Develop truly Bruneian businesses that is able to compete regionally.

The new LBD Framework Directive, among others, requires each operator, contractor and sub-contractor to undertake the following:-

- i. To prioritize the use of **local-made goods and locally provided services**;
- ii. An *LBD Management System* that contains among others, objectives, long term strategies, annual workplans, *key performance indicators (KPI)* and targets, and training programme for local staff;
- iii. A *Local Content Opportunity Framing* for the *life-cycle* of major projects in order to among other identify opportunities for local content and local employment;
- iv. To carry out of certain **activities within the country** as set and directed by EDPMO from time to time;
- v. To provide conducive enviroment for employment of locals by implementing measures as set and issued by EDPMO from time to time such as, but not exclusive to, minimum wage, career development plan and employment security; and
- vi. To report on the **progress of LBD** including in term of local employment and *Local Content*.

These requirements are in place to ensure that the LBD Framework Directive is able to function properly and be able to identify any improvement that is needed to deliver the set KPIs.

To meet the above objectives, one of the key components of the Directive is the allocation of contracts into groupings or quadrants as they are called in the LBD Directives. These quadrants have been developed with the assistance also from BSP. There are altogether four quadrants i.e. BASIC, DEVELOPMENT, CORE and HIGHLY SPECIALISED. Let me highlight each and every one of these four quadrants:-

First we have the **BASIC** – This quadrant is only for Bumiputera managed companies who are not active or registered in the other quadrants. This is dedicated to new players to be able to encourage them to build their experience and capabilities. The annual contract value (ACV) here is **less than \$10 million**. Local employment target must be **more than 90% over time** as well as Management team composing of **100% locals**. The company here is to be actively managed by the owners/proprietors. Obviously this is dedicated for new players to gain experience, this is rightly so. The local content here is to be **more than 70 %**. Examples here include catering and landscaping;

The second is **DEVELOPMENT** – This quadrant is only for Bruneian-owned companies. The ACV here is **more than \$10 million**. Here local employment target must be **50% - 90% over time** as well as local content of **more than 70%**. It must be ensured that the company is actively managed by the owners. The local management composition to be **more than 50%** by January 2013 but over time I also expect this go up to 90 percent. Examples in this category include maintenance, fabrication, offshore painting and marine;

Then we have the **CORE** – which is opened to any interested parties and requires higher skills. The ACV here is also **more than \$ 10 million**. Target for local employment must be **50%-90% over time**. Here local management target needs to be **more than 50% with** Local content target to be **more than 50%**. Examples of this include drilling rigs and heavy lift installations;

And lastly, **HIGHLY SPECIALISED** – This quadrant is opened for any contractors and has ACV of **less than \$10 million**. In view that most of these services are only required in a short time frame and not on a continuous need, the local employment and local content is on best endeavour. Examples here include seismic marine surveyor and specialised compressor inspection.

Through this new LBD Directive, we aim to ensure that there is a level playing field without any monopoly. This may be good news to some and bad to others. For those who think this is bad news, please think again. Is giving opportunities to small players to be able to also participate wrong. Is it wrong to cultivate our local SMEs. Is it right that this area of business be allowed to be continuously only dominated by five companies.

On business ethics, I would like to ask whether it is right for a director of one company to also assume directorship in other companies. This is more so if these companies are involved in the same line of businesses and likely to ‘compete’ in inverted commas with each others in acquiring the same contracts being offered in the market. This is again especially so if your companies are among the top companies in this country. This is what puzzles me. I fail to understand how this situation can promote healthy competition among the contractors. I also

feel there is a need to be sincerity in undertaking businesses and such practice that I have just stated is against this basic ethic.

Please look at this and think very carefully. If we do not care for the survival of our own local SMEs, who else will do it?

On this, I would share a recent development where I was told that on a tank fabrication and installation project, there is only one contractor who is able to undertake the job. I also understand that for any such project in the future, the plan is to look into opening up it further to more entrants. It is important that BSP continues to ensure that we do not have to face a situation where only one contractor is able to undertake a certain job, this can be done for example through the development of new players.

I have also recently come back from a working visit to Aberdeen, the city well known for its oil and gas production. Most of the presentation highlights and centers on the efforts of Local Business Development (LBD) as a priority and main agenda. Through this SMEs has develop and has venture outside the country. This is what we want to see of our own Bruneian companies. So it is the aspiration that this Directive also enables established local companies to further develop and strengthen themselves and InsyaAllah over time for them to be able to compete regionally. It is a first where percentage of local employment and local content is made a part of the requirements for contracts. Here I want to remind all of us here today again that this effort is inline with His Majesty the Sultan and Yang Di-Pertuan Brunei Darussalam's 65th Birthday's Titah on the need for the planning of human resource development should be more orderly and with this the nation being able to provide wider employment opportunities to the younger generation. The performance of this employment will be tracked, monitored and enforced by the Government of His Majesty the Sultan and Yang Di-

Pertuan Brunei Darussalam through EDPMO. We need to do this as we do not want to just explore and produce oil and gas for export, as it is equally important that these activities are able to provide more spin-offs in terms of employment and setting up of more services companies. Only then can we say we have a sustainable oil and gas industry.

These efforts are in-line with His Majesty the Sultan and Yang Di-Pertuan's Titah during the Audience and Investiture Ceremony for His Majesty's Birthday in 2007 where **His Majesty stated that the two most basic factors needed to increase economy are cooperation and services as they can smoothen the development and maturing of small and medium enterprises or SMEs for short and long term benefits. His Majesty further stated that therefore, the government agencies must also participate in preparing the pathway for this (the SMEs) development so that as a sector, they can together play a true role in developing the country. Toward achieving excellence in economy, His Majesty reminded us that all parties must appreciate the contribution of the SME group and to work together to ease their predicaments.**

So what does this mean to how your businesses and organisations functions? The message is this, if you want to continue to be able to do well in the oil and gas business in Brunei Darussalam, you need to incorporate the requirement of the new LBD Directive into your current processes and procedures. It is to be as important as technical and commerciality of any contracts.

Through this LBD Directive, we want to see Bruneian companies being managed and owned by locals, we also want to see Bruneian companies owning their key assets such as vessels and rigs and not only leasing them from third parties. We want to see our Bruneian companies carrying out their commercial activities as their very own

and not just being satisfied of getting a cut of the profits or commission as agents of others. Indeed, to those who feel they had managed to achieve these, congratulations and we hope your successes will spur others to follow in your footsteps. To those who are still practising the concept of being agents and getting commission, of which there are many of you here, please stop such bad practices, as it does not add value to the country's economy. There needs to be a mindset change on this. We really have to work hard so that we are able to provide employment and for our future generations to be able to compete outside as well. The reality is we must have the young generations who not only have the moral and religious MIB values but also at the same time be able to develop themselves to be our future entrepreneurs, create viable businesses and be able to compete in and outside the country. That is why we are passionate about LBD. Through this I am confident that we will be able to sustain the oil and gas industry that has brought economic development as well as peace and prosperity to our beloved country, Brunei.

One of the things that must be looked at carefully is for some contracts to be of reasonable length in order to provide opportunity or incentive for the local contractors to invest in better facilities or owning the required assets. Perhaps, on this there may be a need to provide extension options based on performances and so on.

Let me now touch on another feature that seems to be the trend or normal among our local contractors. The feature that I am referring to is carrying out the business activities by registering under Business Names Act (Chapter 92). It is well known that by carrying a business just under the Business Names Act and not under the Companies Act (Chapter 39), the proprietors can avoid paying corporate taxes and at the same time, also avoid the need to undergo auditing process at the

end of the financial year. We need to be serious on this matter, the payments of taxes and other fees are important contribution to our nation's economy as they form parts and parcels of the country's income. Instead of providing excuses that taxation is a burden and has negative impacts on your business, you and your company should be proud of having set aside a small part of your profits in order to pay for the taxes. Our corporate tax rate is already one of the lowest in the region and I am sure that the Ministry of Finance will act to find means and ways to make the business environment in Brunei Darussalam favourable to the business community.

Having to pay taxes and to have your accounts audited regularly have their own advantages whereby the company's capital and expenditures will have to be managed properly which in turn will make your company become more efficient and competitive. Auditing will also help identify weakness in the management and control system within the company, so that these can be strengthen or improved. On this I would like to urge the audit firms to continue providing their services in a professional manner and in line with the internationally accepted industry auditing standards. Audit firms' task is to present a true report of the company's financial standing, they should not instead for example, be helping their clients to avoid paying taxes and so on. We need to remember there needs to be transparency and with this the need to have sincerity in the way we do business.

Similarly, we also don't want to see *fly by night* companies that are more interested in just making money without giving any thought on corporate social responsibility. This must rank as one of the worst form of abuses in our oil and gas activities. I would like to ask the operators and companies to look at this matter very carefully, as we

want to have truly local companies who are also contributing back to the welfare of the community here in Negara Brunei Darussalam.

On this, we may have to examine the need to require businesses to register as companies under the Companies Act. In the meanwhile, I would like to ask those not yet conducting your business activities as a company duly established under the Companies Act to look again and further understand the various advantages of being registered under the said Act.

We are looking at LBD from various aspects, in order to provide our local companies with manpower with the right qualifications. For example, the Government of His Majesty the Sultan dan Yang Di-Pertuan are carrying out various measures including reviewing with a view of upgrading several technical and engineering courses in the higher educational institutions, placing more emphasis on ability to produce professionals and technicians, both skilled and semi-skilled who are able to meet current and future demands. This will increase the employability and marketability for our graduates here and elsewhere, which in turn will attract more students to join these courses. Similar efforts are also being made on producing locals with the qualifications in management, economic, IT, finance and others. I want the local technical education institutions to listen to the requirements of the industry and to respond in a timely and appropriate manner.

The improvements to be made with respect to the higher institution will not only cover the syllabus but also to the facilities provided by the institutions. Toward these, we are engaging experts from well-known regional and international educational institutions. Realising and acknowledging that nothing beats learning from those with industry experience, one of the initiatives that are being looked at

is inviting experience staff from the oil and gas related companies to teach as visiting lectures in some of the courses that are being offered by University Brunei Darussalam, ITB and others. All these are either currently being implemented or will be implemented in the very near future.

The employment of locals is one of the main objectives of this LBD directive. I understand that during the recent job fair held in December 2011, more than 5,000 CV's were received and as of today around 350 candidates are being considered. I look forward to receive report from all of you as to how many will be recruited. Let me remind all of us what I have said during the Job Fair that our aspiration is to recruit 1,000 locals this year. This LBD Directive as I explained above would require contractors to meet the local employment target throughout the duration of the contract, starting from a minimum of 50% on the first year and up to 90% at the end of the contract. Failure to meet this target may lead to possible consequences to the operators and the contractors.

Another move introduced by the His Majesty's Government last year was the introduction of financial incentives to encourage locals including those who are currently being employed either in the public or private sectors to improve their academic qualification by pursuing courses in local private educational and training institutions. We have seen encouraging responses to this new initiative.

Allow me now to move to another important factor that will determine whether we would be on track in our local business development drive or otherwise.

In order for every company to be able to compete on equal footing, we must continue to place important emphasis on **business integrity**. Every company without exception must not only be seen to be free of corruption, but must actually be free and has mechanism in place to deter and to deal with this evil conduct, a conduct that is not only harmful to the nation but also to the company and the business community as a whole. Once someone or a company is proven to be involved with a corrupt practice, the tarnish would be almost impossible to remove.

As part of our determined and conscious efforts to stem out potential unhealthy practices along the lines in BSP's tender process, we have work together with BSP to introduce additional measures including revamping the membership within the BSJV Tender Board. These deterrence measures are aimed to ensure that you as the contractors must feel truly assured and confident that your submissions would always be treated fairly based on the set criterias, without being at a disadvantage due to unhealthy practices by others, including your competitors or by the relevant lines. Healthy and fair competition in a tender process is a must. This means it must be free of corrupt practices or attempts to do so. We should not tolerate corruption in any form or at any stage of the whole chain of business.

The fight against corruption and other unhealthy practices is the responsibility for all. And where it occurred, consequence management must be taken and imposed strictly.

I would like to bring our attention to His Majesty the Sultan and Yang Di-Pertuan of Negara Brunei Darussalam's New Year Eve 2008 Titah, where His Majesty said:

What made a development special or extra ordinary is when we place it on a proper track, that made it safe from contamination by negative actions and fraudulent human behaviours. Overall, nations of this world are actively developing, but the social illness and poverty are still gripping them, why?

It is wrong and there must be reasons for this. In my opinion one of the causes is corruption. Due to corruption, all mechanisms would be weak and lame and all development would also be lame.

This if true, shall serve as a warning to us, not to get close to corruption. Does not assume that 'small corruption' is okay, but remember its risk. Small or large, a little or much, they are equally named diseases of the country. A country which had sunk in corruptions is an unfortunate country."

As citizens and residences of Brunei, we must uphold the law of the country including the Anti Corruption Act (Chapter 131) and this include our responsibility as good citizens to report corrupt acts. It is on this aspect, that I welcomed a recent complaint received from a local contractor regarding his genuine displeasure over BSP Tendering Process. Unfortunately, this local contractor in order to back up his complaint also enclosed a confidential document about the tender that should not be in his possession in the first place. In his eagerness to prove that he had been victimised, the complainant himself showed he was not free from being involved in unhealthy practises himself. These are the things that still worry me. There are still leakages relating to business integrity and that this must be stopped.

I would like to apologise if I seem to be unfairly using BSP as an example. That is not my intention but BSP due to its own size and

prominent in our oil and gas industry is always an excellent example. On this, I would like to thank the BSP Management led by Ken Marnoch, MD BSP, for their very kind understanding and strong supports in these efforts. On this, I would like to also call upon the rest of the upstream and downstream companies including PetroleumBRUNEI and other major companies in Brunei Darussalam as well as all the companies that are providing services to these companies to also provide their unweavering and unselfish supports toward ensuring that business integrity remain an integral part of our oil and gas industry. I would like to urge you all to continue to monitor your tendering and selection processes so that these complied with your companies' rules and that of the law of the country.

We understand that we are living in a dynamic world and business is ever evolving. So the Directive will also evolve and is not meant to stay stagnant or else we will fall behind. EDPMO will continue to monitor this and identify any gaps that might arise or any improvements that may be needed from time to time.

I would like to thank and acknowledge the feedbacks that I have received from the business sectors. I would like to assure you that all these feedbacks the form of comments, proposals and complaints are welcomed and greatly appreciated. Your feedbacks are very important as they are from people who are involved day in day out in our oil and gas activities. Some of the information we received just reconfirmed what we already knew whilst others contained new information or direct us to issues that were not in our radar yet. Indeed, some of the feedbacks received for one reason or another could not be accommodated but others have been taken into accounts or have been acted upon by the Energy Department.

I hope that you will take LBD seriously and work together with the Government of His Majesty the Sultan and Yang Di-Pertuan Brunei Darussalam to ensure that oil and gas industry is sustainable and that our future generations are able to enjoy the peace and prosperity that it has been able to brought to our beloved country. I urge you to provide your full commitments and your contributions will make a different and ensure the success of these efforts.

At the end of the day, as the Government there is only so much that we can do to help and mature our local businesses. We will continue to do the best that we can. But, it is up to you to take up the opportunities that are available in the industry like the famous Malay proverb "*Kalau hendak seribu daya, tak hendak seribu dalih*". If you want to grab the opportunity, the rule is simple. You need to be able to keep ahead of the competitions and have the ability to meet the challenges, provide the best services that meet the expectation of the operators and companies that engaged you. At times I notice the quality is disappointing and I want you to improve. Don't be only self-centered and think only of yourself. There is a bigger picture which all of you need to take heed. If you have any contracting issues, you can go up all the way to the Chairman of Tender Board.

As I have said from the beginning, I expect some will welcome this new LBD Directive while others will not. Please think about this. This industry has been in existence for over 80 years and so are we happy that is dominated only by mainly five players, where employment of locals here are about 30 % and local content is less than 15%. Is this what we want for the future of the country? The answer should be a No. What we want is to have a level playing field, which is free of corruption. Recently there is a case that has surfaced for which I

will not comment on further but this is not a good reflection on the current state of affairs.

Lastly, I do not expect that everyone would be able to fully comprehend in just one day or from just this brief gathering, the real objectives of this LBD Directives and what are required from each and everyone. We welcome and look forward to further engagement on this and other subjects relating to matters pertaining to our oil and gas industry and its future. In the meanwhile, you may approach EDPMO should you need further clarification on this LBD Directives. Let me assure you that what we are doing is to meet the aspiration of His Majesty the Sultan and Yang Di-Pertuan of Negara Brunei Darussalam to provide employments, to develop local businesses and SMEs, to provide equal opportunities for the people of Brunei Darussalam and to create an environment that is free from corruptions.

Ladies and Gentlemen, thank you.

**WABILLAHITAUFIKWALHIDAYAHWASSALAMU'ALAIKUM
WARAHMATULLAHIWABARAKAATUH**