

ICV – Changing the Game Changer: Update on ADNOC’s In Country Value Program and other relevant developments

The Abu Dhabi National Oil Company (ADNOC) has announced its own localisation programme (In Country Value or “ICV”) in November 2017, taking effect in April 2018. The aim of the procurement-led initiative is to localise suppliers, develop the UAE workforce (Emiratisation), and enhance critical functions in the oil & gas industry. In September 2018, significant changes have been announced to the ICV program, in particular to the ICV formula, the improvement plan (including its enforcement) and the overall award strategy. The changes will take effect in November 2018. This legal briefing gives an overview of the recent changes to the ICV program and other relevant developments.

1. What has happened so far?

ADNOC’s “In Country Value” (ICV) programme was announced in November 2017 and implemented on 1 January 2018.¹ Since 1 April 2018, all suppliers of goods or services to ADNOC and its subsidiaries (ADNOC) are required to calculate and declare their ICV score for the previous financial year, to demonstrate how they are delivering ICV. ICV scores need to be certified by an ADNOC approved certifying body on an annual basis and submitted by the supplier to ADNOC with each proposal they make.

ICV follows a general localisation trend in the region, in particular in the oil & gas industry. Saudi Aramco’s IKTVA and Petroleum Development Oman’s ICV have served as models for ADNOC’s ICV.²

2. Why change it now?

The changes were made to enhance ICV and its implementation.

3. What was changed?

Major changes were made to

- (i.) the ICV formula;
- (ii.) the ICV Improvement Plan; and
- (iii.) the award strategy.

a. ICV Formula

Changes to the formula will have an effect on the ICV score: While the overall ratio between the goods/services and company specific section (50%/50%) has not changed, the section specific formulas and

¹ Regarding the introduction of ICV, please also refer to our previous briefing: <www.schlueter-graf-knowledge.com/fileadmin/Redaktion/Download/Dokumente/180513_ICV_and_its_Impact_on_Doing_Business_with_ADNOC.pdf>.

² Regarding IKTVA, please also refer to our separate briefing: <www.schlueter-graf-knowledge.com/fileadmin/Redaktion/Download/180218_IKTVA_and_its_Impact_on_Doing_Business_with_Saudi_Aramco.pdf>.

ratios have been changed: e.g., the Emirati- zation ratio has been lowered to 15% (from 25%) and the investment ratio has been in- creased to 25% (from 15%), thereby placing particular emphasis on investments. Invest- ors investing in production companies in the UAE (USD 5 million-50 million) will now also be able to get a top-up of 15% on their ICV score.

b. ICV Improvement Plan

Unlike before, ADNOC will also require bid- ders to come up with an ICV Improvement Plan prior to submitting any offers from No- vember 2018 onwards.³ The ICV Improve- ment Plan will need to show how the suc- cessful bidder will improve his ICV score over time. The ICV Improvement Plan be- comes part of the commercial bid and can- not be revised. Compliance with the ICV Im- provement Plan will be a necessary require- ment in order for successful bidders to re- ceive payments from ADNOC in ongoing supplies. Suppliers must communicate shortfalls without any delay towards AD- NOC.

Another safeguard measure has been im- plemented in the form of an ICV Milestone Payment Mechanism to ensure ICV-compli- ance. Under this mechanism, progressive payments will be made if the annual set ICV targets have been met by the respective suppliers. Payments will be released upon submission of the ICV certificate showing that the respective ICV milestone has been

reached.

c. Award Strategy

Within the procurement process, ICV is mainly relevant during the evaluation phase. Bidders having passed the technical evaluation will – as before – be ranked in accordance to (i) the best price; and (ii) best ICV score as shown in the ICV certificate. However, unlike before, now the ICV Im- provement Plan has been included in the award strategy. The ICV score and the ICV Improvement Plan are now combined in a total percentage score (combined ICV score) according to certain weightages. Thereby, the bidder with the best com- bined ICV score is allowed to match the best commercial offer. Should the bidder with the best ICV combined score not be able to match this price, the bidder with the second best ICV combined score would be asked to match the price, and so forth.

4. Are there any other relevant develop- ments?

The Abu Dhabi Global Market (ADGM) has recently announced that it has entered into a memorandum of understanding (MOU) with the Supreme Petroleum Council in Abu Dhabi (SPC). The MOU includes a provision allowing investors registered in ADGM to apply for a license to cover onshore and off- shore oil field and facilities services. This ac- tivity is necessary to register with ADNOC as a supplier. Previously, such licenses were

³ Note that while the full implementation begins in No- vember, in some specific instances the enhanced program will be effective as of 11 September 2018.

reserved for companies registered in the Abu Dhabi mainland (i.e. not available for companies registered in free zones).

5. Conclusion

Foreign investors engaging in business with ADNOC will need to keep up with the latest changes to the ICV program:

- Substantial changes to the ICV formula in terms of computation and complexity will come along with different results in the ICV score;
- The requirement to obtain an ICV certification (*for the ICV score to be counted*) remains as is;
- During the award process the ICV Improvement Plan will be considered by combining the ICV score as shown in the certificate and in the ICV Improvement Plan;

- Enforcement of the ICV Improvement Plan shall now be secured by an ICV Milestone Payment Mechanism.

The recent changes are a clear indication that ADNOC's ICV program is here to stay. Growing complexity requires that suppliers allocate more resources towards careful ICV planning.

Apart from this, recent changes to ADGM's licensing requirements show that there are new possibilities for investors to set-up their business in the ADGM free zone and register with ADNOC.

As a general trend, foreign investors should expect that localization will be implemented on other industries as well. Other governmental bodies can rely on ADNOC's experience.

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