By 2014, the total GDP of emerging markets is expected to overtake that of developed economies. At the same time, technological advances are transforming businesses around the world. As a result, it is easy to see why emerging market energy project explorers and developers (EMEPEDs) are so excited about their prospects. Indeed, since the advent of the global commodity boom at the turn of the 21st century, the growth in emerging markets has been remarkable, creating tremendous potential for long-term investment. But EMEPEDs have long understood that engaging in emerging market projects poses a wide range of complex and unique challenges, one of which is locating enough skilled workers to tap into these opportunities.

As the scale of energy projects becomes increasingly larger, more technologically driven and more complex, and as investment in such projects increases in pace, there is intensifying demand for a highly skilled, highly educated and highly experienced workforce to implement such projects, leading to labor shortages in developed economies.
Global Expansion and the Need for an Effective Distribution Channel Strategy

These labor shortages are amplified in many emerging markets where a skilled workforce is often non-existent. Expatriated employees can also help get projects off the ground in such markets, but they may not be able to satisfy all labor demands.

Without sufficient skilled labor, the risk of an adverse health, safety or environmental incident increases substantially. Thus, an EMEPED’s success in an emerging market will depend upon its ability to solve its labor constraints.

Hiring Local Counsel
One of the first steps to getting established in a new emerging market is to retain advising attorneys on the ground who are licensed in the host country. This will help ensure that company operations comply with local laws and regulations. Hiring local counsel can often feel like hiring a tour guide for a new adventure—there is often an infinite supply of willing parties, a lack of good information on satisfied (or unsatisfied) customers and a range of prices that is rarely directly proportional to the quality of the service provided. But like the tour guide, the right local counsel can be the difference between an efficient, properly managed venture and a laborious, painful headache with potentially disastrous consequences.

The first step in hiring local counsel is to consult with the company’s domestic counsel. Many large commercial law firms have offices all over the globe, and even if they do not have an office in the project country, they may have an office in the surrounding region. This can mean familiarity with the government institutions and how they interact with foreign investors, personal relationships with skilled attorneys in the host country, and a general understanding of the legal complexities that exist in a particular emerging market. If the domestic law firm does not have an office near the project country, the firm will likely be able to provide a referral for competent local counsel.

Good local counsel will make the process of complying with local laws more efficient and transparent. Companies should reach out to local counsel as early in the investment decision-making process as possible, and communicate with them throughout the life of the project.

Local Content Concerns
Local content is generally thought of as the requirement that a project funded...
by foreigners generates value for the host country’s economy. While local content requirements are not a new phenomenon, there has been a renewed emphasis on increasing local content participation in many emerging markets. Although these requirements vary from market to market, local content regulations are generally implemented with the intention of promoting growth, creating local employment in the host country and keeping wealth within the host country’s borders. Accordingly, one of the key components of local content requirements in any project—and the standard by which compliance is often measured—is the ratio of host country nationals to expatriates in such a project. Often, local content regulations require that up to 30% of the workforce consist of local labor.

In an era where energy companies in developed economies face manpower shortages, satisfying local content regulations can be daunting. And running afoul of such requirements (whether by an EMEPED’s contractors or otherwise) can lead to serious monetary damages or, in a worst case scenario, nationalization of an EMEPED’s assets and a rescission of all grants, licenses and contracts from the host country.

The lack of skilled talent likely stems in part from the generally low energy price environment that existed for the better part of the last two decades of the 20th century. That environment inhibited investment and energy technological advancement and, in turn, diminished interest among university students in pursuing an energy career. Businesses are now feeling the effects of the dearth of college graduates with petroleum, engineering or geology degrees from that period of time.

Moreover, many of the emerging markets that have caught EMEPEDs’ interest are in regions with little history of significant oil and gas production. As a result, there has never been a demand for local universities to offer energy-related programs. More troubling, given the age of the current skilled energy workforce in developed economies, there is growing concern that the industry will lose a significant portion of its skilled workforce to retirement within the next decade. This will make the skilled labor shortage even more pronounced at a time when many large-scale energy projects now on the drawing board will come on-line.

To manage this risk, EMEPEDs...
The lack of skilled talent likely stems in part from the generally low energy price environment that existed for the better part of the last two decades of the 20th century.

should take steps early in a project’s life cycle to determine how to meet labor needs. This requires developing a clear picture of both the number of local employees needed and the type of skills required. In some emerging markets, local content obligations can be met through the employment of local labor forces in ministerial or unskilled positions.

EMEPEDs should also reach out to universities in the region for recommendations on how to obtain the requisite skilled labor. If universities or other institutions of higher learning do not offer academic programs suitable for a career in the energy industry, depending on the investment time horizon, EMEPEDs could consider funding the development of such programs in the host country. If an EMEPED’s investment horizon is not long enough to justify building schools and funding programs, companies should consider joining forces with local union halls, which can act as a stop-gap solution to worker shortages by drawing workers from other fields, such as the shipbuilding and infrastructure industries.

Reliance on service companies to assist in resolving the labor shortage is another path EMEPEDs often chose to solve labor matters. But in doing so, EMEPEDs incur new risks, such as additional counterparty risk, and, to the extent a service company is in breach of local content regulations, such arrangements do not always provide a safe harbor for the EMEPED from a host country’s claims of non-compliance.

Expatriates in Emerging Markets
Where local employees are not sufficient, EMEPEDs have long relied upon expatriate employees to lead projects in emerging markets, and for good reason. Expatriates who are trained in the EMEPED’s manner of conducting business and ingrained with the EMEPED’s safety policies make it easier to manage the local labor workforce. But as the labor market becomes even more constrained and salaries climb for skilled labor in developed economies, it will likely become more difficult (and more costly) to attract skilled labor willing to work in far-flung destinations.

According to a recent Mercer survey, two of the most significant challenges in attracting expatriate workers in emerging markets are establishing competitive policies for attraction and retention, and addressing equity issues between expatriates and local nationals. Skyrocketing salaries for petroleum engineers in developed economies such as the United States lead to even more substantial compensation package demands from expatriates. This creates a pay disparity between expatriates and local labor that can drive a wedge between these two groups.

Moreover, with rising global travel costs and rapidly increasing costs of living in emerging markets—for instance, Luanda, Angola, one of Africa’s largest energy hubs, is considered one of the most expensive cities in the world—funding an emerging market energy project with as many expatriates as possible can be both difficult and prohibitively expensive.

Attracting and training the right expatriate candidate is also a challenge. Expatriates often encounter unique situations in a host country and failure to properly prepare employees for work in a host country can become a significant issue, particularly if these workers are exposed to Foreign Corrupt Practices Act violations or reputation-damaging cultural clashes with local labor forces.

Proper management requires careful screening of potential expatriate employees to make sure the right candidates are relocated. Candidates being considered for offshore assignments should be trained and educated with respect to the history, current affairs and political situation of the host country. Companies must also carefully plan with respect to the employee’s family or personal situation.

Once in the host country, an EMEPED should make an effort to provide the expatriate employee with the proper living conditions and avenues for entertainment outside of the workplace. Failure to do so can lead to higher turnover and greater costs. Part of having an effective and efficient work force is personal wellness, and that requirement does not end when the employee changes his or her country of residence.

Increasing the Odds of Success
Tremendous opportunities exist for energy investors in emerging markets. The magnitude of returns, however, will depend in part on how EMEPEDs solve labor shortages impacting the energy industry. By identifying and working with competent local counsel, knowing and complying with local content regulations, carefully evaluating labor needs and the local skilled labor market, and utilizing, training and managing the expatriate labor force, an EMEPED can mitigate its labor risk and increase the probability of success in its next emerging market investment.

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