



Using Translation to Cut Costs in the Energy Sector

Wagner Covos

How to apply localization principles to the oil industry and save your client money

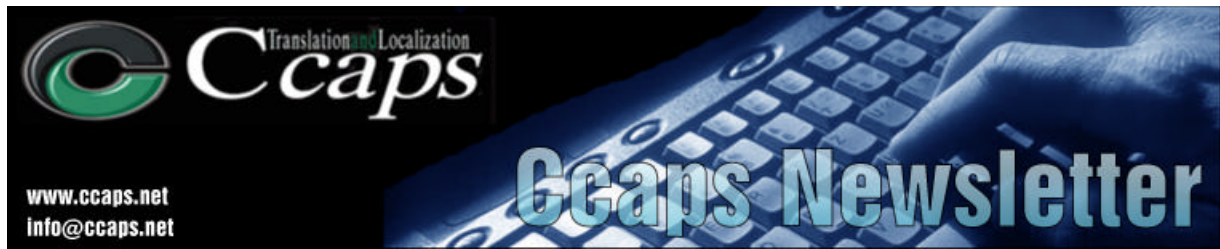
Everyone knows that translation is an important service that offers direct economic benefits. It is also no news to those of you who work with software localization that the more the translation is adapted to the characteristics and peculiarities of a certain geographic region, the more benefits it will bring to whoever buys it. Nevertheless, I believe that no other market has a more direct relationship in terms of cost reduction as does the translation (or "localization," if you prefer) of parts and equipment for oil companies in Brazil.

I currently work as Director of the Energy division at Eagle Global Logistics, a company that specializes in providing end-to-end logistics services to the oil industry. Among the activities associated with this market, which range from the shipping of small parts to the transportation of already mounted oil platforms, we offer translation and customs classification services to some of our clients. This activity is crucial for reducing the tax burden of our customers. This is because, depending on the final use of the part being imported, it may or may not be exempt from the *Imposto de Importação* (II), the Brazilian importation tax, and the *Imposto sobre Produtos Industrializados* (IPI), the Brazilian tax on industrialized products.

REPETRO is a Brazilian normative instruction that regulates the special customs regime for importing and exporting goods destined for oil and gas research and exploration activities. To benefit from the special REPETRO concessions, imported goods must be correctly translated and classified so that when they are evaluated by customs inspectors, they become exempt from the above mentioned taxes. However, the work of translation and classification is much more complex than you would imagine.

A rig for the oil industry, for example, has an inventory of nearly 45,000 different items, from toilets to high technology equipment. These rigs constantly undergo maintenance, whether preventive or corrective, and demand a control and shipment of parts that is extremely dynamic. A great number of these parts must be imported, and the entry of the materials is therefore an activity with a high level of circulation.

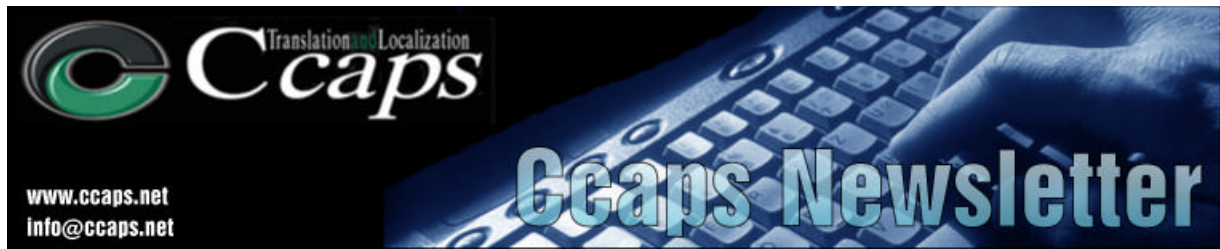
For each process, an invoice and packing list are drawn up, describing the included items. These items are translated and classified by our company according to certain criteria created by the Brazilian IRS. This agency requires extremely detailed specifications of each part, even to the point of requesting the type of raw material used to produce the item. It is this customized translation that prompted me in the first paragraph to borrow the term "localization" from the area of new technologies to apply it to oil and gas activities.



Let's take an example. When a **nylok shoulder for v-shear ram block screw** is imported by a company located in Brazil, the item is generally described on the invoice as a simple **screw**. In order for the part to comply with the strict criteria of the customs examination, the invoice translation must specify that it is part of a blowout preventer (BOP), a piece of oilfield exploration equipment. Therefore, if the item is translated into Portuguese and classified as *parafuso de nylok de ressalto para bloco de gaveta de corte*, the customer will be able to benefit from the associated tax exemption. On the other hand, if the word is not "localized" and translated simply as *parafuso*, the inspectors will not be able to determine whether the item is intended for the target activity or if they are dealing with a screw for a washing machine. Hence, the inspectors will not be able to apply the usual tax exemption rules, which would otherwise benefit the importer of the item.

In addition to reducing the tax burden, these savings may also relate to bonded warehousing costs and cash flow optimization. When the inspectors receive a translated invoice, it will be easier for them to understand the purpose of the items listed therein if each is properly detailed. Consequently, they will be able to release the cargo much more quickly. This process is directly associated with bonded warehousing costs, because if the inspectors have any trouble understanding a listed item, they can retain the cargo. To release it, they will request technical reports confirming that the item belongs to a piece of equipment designed for oil and gas research, exploration or production. The costs associated with bonded warehousing are proportional to the size of the part retained and so are the losses from not receiving it, especially if the part is imperative for the proper functioning of the platform. However, this speed results in not only direct cost reduction but also indirect benefits, such as cash flow optimization.

An item entering the country will already have been billed, and depending on the negotiation and delivery time of the cargo, the due amount may already be paid. However, even if the money has already been withdrawn from the importer's account, this does not necessarily mean that the imported part is being used. By reducing the transit time between the supplier and the importer to a maximum the company can considerably improve its cash flow. It is obvious that choosing a more efficient means of transportation – such as air versus maritime, for instance – will significantly reduce transit time. However, what may not be obvious for those who do not work in this industry on a daily basis is that the correct translation and classification of the item are also crucial to reducing delivery time: the less time the material is held by customs, the faster it will arrive at its final destination.



If the term **localization** was created to better explain the process of software translation that appeared with the so-called new technologies, it is about time that oil and gas professionals realize its importance for the industry. Because if the inspectors justifiably decide to prevent that simple screw from entering the country, they can do so without so much as blinking an eye. Considering that this particular part is fundamental for the platform's operation and that the costs of a fixed oil platform can be as high as hundreds of millions of dollars per day, imagine the losses that a poor translation and classification can cause. Not only to the importer, who is directly affected, but also to the national economy, which would be unable to produce thousands of barrels of oil a day because of a badly "localized" screw.

Wagner Covos is Project & Energy Director for Latin America at Eagle Global Logistics. With a degree in Civil Engineering from São Judas Tadeu University (USJT) in São Paulo, Covos has worked in the area of logistics for more than 10 years. He sings opera beautifully and, according to the Ccaps team, his interpretation of Puccini's Nessun Dorma is spectacular.