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*Speech to the World Petroleum Congress*

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*'Societal Expectation of the Oil and Gas Industry'*

Good morning ladies and gentlemen,

I join you this morning as Chair of Transparency International. Transparency International is the leading global civil society organisation engaged in the fight against corruption. We have more than 90 national chapters around the globe and are operating in areas of the world where the issues confronting the oil and gas industry – the societal issues – are front and centre.

I am delighted to be here to exchange with my distinguished fellow panellists on societal expectations of the Oil and Gas sector.

Today, more than half of the world's poorest people live in resource rich countries.

And, historically, revenues from natural resource extraction have not always helped reduce poverty or improve the lives of citizens. Much of this has to do with poor governance and a lack of accountability and transparency.

**This is an explosive situation.**

On societal expectations, I would first and foremost suggest that people are becoming increasingly vocal about the ownership of oil and gas and other natural resources.

Many have seen decades of extraction with little change in overall poverty levels and a continuous lack of social and physical infrastructure.

Perhaps this is why we now observe that more and more people believe these resources are theirs, and that the wealth generated by natural resources belongs to them as citizens of a country – that it belongs to the people and their communities.

At the same time, they expect that these resources be managed transparently and that the profits they generate be monitored and managed in an equally transparent manner.

They increasingly believe these resources to be their resources, and that too often the benefits lie with those who exert discretion over its use, and I am speaking here of governments and also of the private sector.

Societal expectations have also increased with regards to the participation of people. People, citizens, communities, civil society want and indeed ought to have an increasing role in the policy and planning that encompasses work in this sector, both in the key initial decisions that drive development and also in the use of natural resource wealth that flow into the public purse as a results of the extractive industries.

Another element that shapes current societal expectations of the oil and gas sector is **concern for the future of communities**.

People fear for the future of their communities, the sustainability of their livelihoods and their planet. People living in oil rich regions are especially concerned about air pollution, contamination of their water supply, and the increasing threat of climate change. In fact, with the current water shortages around the world, communities` concerns about the over use of water in oil extraction are only increasing.

Finally, societies everywhere are looking for change, for improvement. Where oil and gas resources are already present, or are being found, from Africa to the Americas, they want to look to the future with hope. They want the wealth of this material resource to trickle down, to lift the poor out of poverty, to nourish the health systems, to build schools for their children and to provide for an overall greater quality of life.

Society expects the success of the oil and gas industry to bring societal success, especially in terms of development and sustainability. Yet in so many cases, this desire is left wanting, and people ask: where has the money gone? Around the world, people hope and demand for a better outcome as a result of oil and gas resources, and we – all of us here, from all sectors, owe it to them to work to this end.

The challenge for the industry, as posed by the organisers of this meeting, is: “to ensure supply and to meet society’s expectations”. But one of those expectations is that people need to feel the positive effect of their natural resource wealth. There has to be some benefit for all and not only for the few. For the oil and gas industry, this is a case where both rights and responsibilities matter, since the lives, the quality of lives and livelihoods are at stake.

Ladies and gentlemen, society expects a great deal from your sector. The current acute spiralling of the price of oil, with its impact on all aspects of life, particularly on food prices, transportation, manufacturing, and inflation exacerbates these expectations. Furthermore, the attribution of responsibility for this situation is elusive even to the best informed. You can only imagine where the blame lies for the person on the street.

The risks on all sides of not heeding these expectations are high, and are growing. This is why my organisation, Transparency International, works on promoting greater transparency, better governance and accountability, and putting an end to corruption.

The solutions we promote are intrinsic to the solutions we so keenly need to pursue. It is imperative to take note that

corruption is bad for business, for all business. Corruption perverts markets.

The World Bank estimates that approximately 1 trillion US dollars a year is lost to development. The International Monetary Fund (IMF) also estimates that a similar amount is laundered in the international system. According to recent reports carried out by the Big Four accountancy firms, company reputation is highly vulnerable once corruption is made public. In a recent survey, one in four business people said their company had experienced bribery or corruption in the last two years, and 1 in 5 said they knew their company had lost business due to the bribes of others.

Corruption also robs the tax base, denying the public purse. It creates unlevel playing fields. It hinders sound investment strategies, the security of investments and the stability of the operating environments, which we know is key to the oil and gas industry. But more than that, corruption affects jobs, consumers and livelihoods, and no one pays a greater price than the poor.

Corruption can also fuel violence and in some cases, corruption kills. There are significant risks to our economic future if we don't take seriously the prevention and punishment of corruption, in all its forms.

Mitigating risk in the oil and gas sector should take a cooperative and collaborative approach, one that includes civil society, the voice of the people whose lives are so dramatically affected, to make sure that the public interest is well represented in the way forward.

I'd like to offer you some ideas of possible solutions of how better to fulfil societal expectations about the oil and gas industry.

**One: Transparency.**

Transparency builds trust.

Transparency prevents corruption.

It prevents extortion.

And it also prevents bid-rigging in the contracting process.

Transparency is also crucial in terms of establishing where the wealth associated with the oil and gas sector goes, how revenue payments, in whatever form, are reflected as income in the national budget.

The Extractive Industries Transparency Initiative or EITI, a multi-stakeholder initiative to promote revenue payment transparency, is a good approach to create sustainable in-country

and cross-country collaboration, and to move forward on the issue of transparency. The EITI model has now been copied in the construction and health sectors – a clear sign of its success.

Ladies and gentlemen, the wealth generated by the oil and gas sector is phenomenal. If the revenues from extraction are used well, they could drive development in resource-rich countries that still experience high-levels of poverty and serious social inequities.

Poverty can actually worsen when there is ineffective governance of the wealth generated by natural resources. This can exacerbate inequity and weaken political cohesion and the rule of law.

From a business perspective such environments can raise investment costs, affect profitability and add to investment and reputation risks.

### **Why is revenue transparency so important?**

With better information on natural resource wealth, citizens can pressure governments to use these revenues for social and infrastructure programmes that can boost economic growth and ultimately reduce poverty. Revenue transparency allows us to follow the money. If citizens know how much money their

governments are receiving from companies for the right to extract natural resources, they can then hold public officials to account.

Civil society has a key role to play in this process – but to play its role it requires access to information. Confidentiality of contracts is not a persuasive excuse against revenue transparency. These resources belong to the public good and the public has a right to know about this wealth.

**Two: A smart regulatory framework can make a positive difference by levelling the playing field for the industry.**

Disclosure of information on Revenue Transparency is hindered by diverse formats of reporting that are actually difficult to obtain, interpret and compare across companies and countries. This could be achieved by the introduction of regulations by the governments of host and home countries.

**Three: Extending Codes of Conduct and Corporate Social Responsibility programmes to subsidiaries and if possible to their supply lines.**

In many instances it is the subsidiaries and their supply lines that have greater interaction with the communities.

By extending good practices to the lowest operational levels, communities can only benefit from the highest standards.

#### **Four: Harmonisation of standards and reporting**

We currently have a number of organisations and initiatives promoting business principles, company standards and reporting on compliance.

The multiplicity of these can create a burden on companies, add complexity and reduce the overall accessibility and comparability. It would be useful to get these organisations to work together to find common reporting systems.

Organisations, such as TI, involved in monitoring corporate practices and interested in greater transparency, need to consolidate and create partnerships for effective engagement. In this case CIVIL SOCIETY can and should do better.

#### **Five: Citizen and community engagement**

Representing the public interest is by no means easy. But involving the public in a meaningful way and include those who are disempowered, benefits society as a whole, not only special interest. By involving people who are economically and socially disadvantaged, civil society can give a voice to the expectations of people vis-à-vis the Oil and Gas Industry.

To facilitate the representation of the societal views and expectations, civil society needs access. It needs access to sit at the table when the planning and use of natural resources is undertaken, and it needs access to meaningful information about the Oil and Gas Industry itself.

Most of these above suggestions are in keeping with the key findings and recommendations of our latest report on Promoting Revenue Transparency, a study on transparency practices of 42 oil and gas companies in 21 countries of operation. We issued this report late April this year in partnership with the Revenue Watch Institute and the Publish What You Pay coalition.

## **Conclusion**

It is important to recognise that a number of companies have strong codes of ethics that they implement and substantive corporate social responsibility programme. Others are also investing in alternative energy technologies and in research to mitigate environmental risks. Some have also learned to invest in the communities where they operate.

In looking to the future, the challenge is to arrive at a situation where all oil and gas industries operate at the highest standards.

Thank you.