Petroleum Revenue Management – an Industry Perspective

by

Willy H. Olsen

Senior Adviser to the President of Statoil

Oil, Gas, Mining and Chemicals Department of the WBG and ESMAP

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About the author

Willy H. Olsen is a Senior Advisor to the President & CEO of Statoil. He joined Statoil in 1980 after 15 years in journalism. During his time in Statoil Willy H. Olsen held a number of positions, including Senior Vice President Government Affairs, Managing Director Statoil UK, Senior Vice President E&P International with responsibility for the countries in the former Soviet Union and Senior Vice President Corporate Strategy. He also worked in the BP/Statoil alliance 1993-94 and represented Statoil in the PSA negotiations in Azerbaijan.

Willy H. Olsen has an in-depth knowledge of Statoil's development as a national oil company from its role as an instrument for the government to its listing in New York and Oslo in 2001.

He is a member of various advisory boards on Caspian and Russia, and a member of the Board of Oxford Energy Institute.

In preparing this speech, Mr. Olsen has actively used the work done in Statoil's group for Corporate Social Responsibilities and papers given by the head of the group, Mr. Geir Westgaard.

Introduction

I have been asked to address revenue management from an industry perspective. Let me start by giving you a pre-warning. I have spent more than 20 years in leading positions in the development of the Norwegian national oil company - Statoil. My views will naturally be influenced by my background and experience.

Statoil was established in 1972 shortly after oil was discovered offshore Norway. Our role was clearly defined. The Government's ambition was that Statoil should be instrumental in the development of a strong and competitive domestic oil and gas industry in Norway. Statoil was also born at the time of the first United Nations Conference on the Environment in Stockholm in 1972 and the company has been raised in a country with strong environmental awareness and very strict environmental regulations.

Statoil's responsibilities have changed over the last 30 years. The role of an instrument is long gone. Statoil has expanded internationally both upstream and downstream – and is operating in 25 countries. Last year, the Government decided to bring in private shareholders. Not because the country needed the money, but to give Statoil added flexibility and strengthen the company's ability to compete internationally. The Government maintains however a strong shareholding position, currently holding 82 per cent of the shares. Statoil was listed in New York and Oslo in 2001.

Statoil defines corporate social responsibility rather broadly. It is about sound business practices. It is about how we earn our profits. It is about solid performance along three bottom lines. It is about our impact on people, the environment and society. It is about conducting business in a manner that maximises benefit and minimises cost.

Statoil subscribes to the principles because it is both the right thing to do and the smart thing to do. It is right in a moral sense and smart from a business perspective. It is neither misguided virtue nor an impediment to business performance. It is a means to achieve robust profitability, which implies striking a balance between short-term earnings and long-term growth.

The Norwegian Objective – Also Increasingly a Global Requirement

The Norwegian Government had clear ambitions when oil was discovered in the late 1960s. The resources discovered offshore Norway belonged to the nation – and the development of the offshore resources should benefit the society as a whole. The goals and strategies were set out in 10 "oil commandments" by Parliament. They aimed at national involvement throughout the value chain and focused on protecting the environment.

The objectives were clear. Norway should develop a competent and advanced domestic industry to participate in the offshore projects – and gradually be able to compete in the global market place. High focus was on technology and competence. The universities and educational institutions adapted rapidly to the new industry and the industry's requirements.

Another key feature was sound resource management. A Petroleum Directorate was established to ensure that all development plans for new fields benefited the society as well as the companies. A no-flaring policy was one of the principles in the "oil commandments" and was at once implemented as a basic element of the resource management strategy. Natural gas was too valuable to be vented or flared offshore. Natural gas should be utilised.

As oil and gas production grew throughout the 1980s, the Government became increasingly concerned about the future oil revenue management. Already in the early 1980s a commission had recommended the establishment of a Petroleum Fund, both as a stabilising fund and as a saving fund. In the early 1990s, the surplus from the oil and gas sector enabled the Government to establish the Fund.

The "Norwegian model" is now frequently looked to from other international oil and gas producers around the world. Can they repeat the Norwegian experience of developing a strong, competent and competitive domestic industry? Can they afford to take a long-term outlook on resource management – and not at least, can they ensure that the oil activities benefit the whole society through a transparent and active management of the hydrocarbon revenues?

Focus is more and more on local content, local competence and resource and revenue management in the Caspian, in the Middle East, in West Africa and in Latin America.

I increasingly hear officials making the right statements, but is this a reality or just rhetoric? The jury is still out.

Revenue Management the Norwegian Way

The oil and gas industry has become the most value creating industry in Norway. In 2001 some 23 per cent of Norway's GDP was from the oil and gas sector. The oil and gas revenues represented some 35 per cent of total government revenues and the oil and gas industry's share of total exports were 44 per cent.

Norway decided to establish a Petroleum Fund in 1990. In a working paper produced by the IMF in 2000[1] the Norwegian fund was considered a successful institutional arrangement.

"*Norway, (one of the world's richest economies and its second largest oil exporter,) has been a model of prudent economic management of resource wealth in recent years. The policy of investing abroad a substantial part of the government's oil and gas export revenues through the Government Petroleum Fund has helped insulate the mainland (non-oil) economy from fluctuations in oil revenue. Coupled with an income policy framework, this strategy has been generally successful in managing the economic cycle and helped raise the living standards markedly over the past quarter century*".

[1] Ugo Fasano: Review of the Experience with oil stabilisation and savings funds in selected countries. IMF working paper WP/00/112. June 2000

One might argue that Norway is better suited than most other nations to deal with an abundance of resource wealth. Norway is a stable democracy with long-standing traditions of transparency, unrestricted media attention and accountable political leadership. A democracy like the Norwegian can limit the exploitation of resource wealth for personal benefits by an authoritarian public management and the nomenclatura.

However, a democracy is no guarantee against bad decisions. Norway has an opportunity to turn petroleum wealth into a long-term advantage. A positive outcome is however dependent on the country's ability to learn from the mistakes of other resource abundant nations. A cautious phasing of oil revenues into the Norwegian economy counteracts instability related to oil prices. Norway has so far been able to avoid the resource curse by applying a cautious and long-term approach to spending the oil revenues.

The rapidly growing oil wealth is however posing challenges – and the key issues in today's political debate are the use of the rapidly growing revenues. Why cannot more oil and gas revenues be used to improve the health sector and education sector? Why cannot more be spent on strengthening the local economies? Why cannot more of the revenues be used as venture capital in the country? Why do we have to invest the revenues outside Norway?

Large revenues from the sale of oil and gas make the Norwegian state one of the richest states in the world. Almost regardless of what happens, these revenues will remain very large and continue to increase Norway's collective wealth. The problem today is that the Norwegian population have limited conception of the size of the oil wealth, feel no ownership, and have difficulties understanding what politicians say about its use.

The ambition should be to be one of the first petroleum producing nations with sufficient spine to handle the wealth from the natural resources without suffering from it, and with the strength and ability to utilise the possibilities offered by the oil wealth. But the question remains: will Norway be able to handle its oil wealth as successfully in the future as it has in the past decade?

A New Global Agenda for the Industry

The world has changed in the past decade, and so has the oil industry. The industry agenda is different. The days are gone when an oil company could simply state that its job was to find, produce and refine oil to meet an increasing demand for oil products. The oil industry is now questioned on its track record on the environment, human rights and socio-economic development.

This new, expanded agenda requires a different understanding of the predicament of petroleum-rich states, the developing countries that are critically dependent on oil and gas for their future prospects. They are often not just resource rich countries, but also countries caught in a development phase replete with social tensions, economic challenges and political contradictions.

How can oil and gas projects contribute to sustainable development and poverty reduction? It is a question which we have to address – and it has become familiar to Statoil as we expand our activities beyond the Norwegian Continental Shelf. It reflects a growing concern among our stakeholders about the impact of our activities on people, the environment and society. It affects the general acceptability of oil as a commodity and as a business. It represents new risks for the petroleum industry, risks that could jeopardize our future license to operate unless properly managed.

Acceptance rests on a general sense that a company or a project promotes growth and development. But the stakeholders are many and varied and perceptions differ as to what constitutes the common good. Employees, customers, investors, business partners, local communities, governments, non-governmental organisations, multilateral institutions and the public at large have diverse, sometimes even contradictory, interests and concerns. Securing a license to operate implies being able to manage different demands, expectations and constraints locally, nationally and globally all at the same time.

Some stakeholders find international oil companies “guilty by association” when the presence of major oil and gas deposits in developing countries seems linked to negative phenomena like corruption, human rights abuses, environmental degradation, and continued widespread poverty.

And given that the legitimacy of the oil and gas industry is being questioned, we need to demonstrate - in a tangible way - that we are, indeed, a force for good, in the sense that those directly affected by our investments are better off because of our presence as well our practices. Creating value and conveying values - setting an example of responsible business conduct - go together, much as financial, environmental and social performance are inextricably linked.

Statoil has always viewed itself as a source of human progress. We provide some of the energy that the world needs and without which there would be no development. Our primary contribution to the communities in which we operate is measured in terms of value creation. This is the impact of our investments on employment, tax revenues, transfer of skills and technology, procurement of goods and services, and social infrastructure. Increasingly, however, we find that our economic contribution is ignored, belittled or discounted. In the public arena, our arguments about positive spin-offs and multiplier effects are largely overshadowed by concerns about the environmental and social impacts of our activities.

The key to successful implementation of corporate social responsibility is good governance - with transparency, clear accountabilities, proper and effective controls, checks and balances, and sound risk analysis and risk management. This is, of course, also the recipe for business success in general, which is why the growing number of ethical and socially responsible investors look at corporate social responsibility as simply a proxy for good management.

Success also hinges on our capability to listen to those who affect and/or are affected by our activities, to understand what is happening in society, and to argue our case with anyone at any time.

This marks a radical departure from the recent past, when corporations and NGOs largely refused to listen to each other. It is hopefully a step towards establishing a culture and practice of pragmatic solution finding through co-operation.

The Role of National Oil Companies

To understand the challenges - new issues - facing the oil industry, it is also important to understand the changing relationship between national oil companies (NOCs) and the international oil companies (IOCs). Many of the national oil companies were created as a defence against the international oil companies, and as a perceived way of maximising oil resources. But the mission of the national oil companies has been altered. National oil companies are increasingly expected to perform according to the demands of international competition while at the same time carrying out its national role.

The international oil companies have to look for a new partnership with national oil companies to access new oil and gas reserves and to grow. Close to 90% of the world's oil and gas reserves belong to governments - including partially privatised national oil companies. Any investment in the oil sector has to involve close interaction with an NOC or a government agency.

And in addition, virtually every aboveground issue facing the industry has changed during my time in the industry. Many new players that have emerged in today's competitive arena, either through privatisation or industry consolidation did not exist 15 years ago, while other important players have disappeared. Of the "Seven Sisters" that dominated the sector in the 1960s, only four remain. The oil and gas industry has far more opportunity globally today than was the case 15 years ago. Almost no country is closed for foreign investors, even in the upstream sector. Both international oil companies and producing countries face new priorities and challenges. The oil companies are primarily driven by the demands of capital markets and the investment community, whilst the producing countries are driven by socio-economic and political demands.

National oil companies are the focal point for accomplishing a broad range of national economic, social and political objectives. The national oil companies are often the largest local enterprises by a wide margin and they enjoy a near monopoly on local technical and commercial talent.

Weak governance, lack of transparency and accountability, has however undermined the performance of many national oil companies. Where the government is the only shareholder, the national oil companies are subject to little pressure to be transparent in their operations. Few national oil companies publish accounts that are either consistent with International Accounting Standards, or independently or externally audited. Board of Directors is frequently politically appointed without independence, and many national oil companies rely on annual allocations from state budgets to finance ongoing operations or new investments.

Many oil and gas producing nations are currently reassessing the way they operate their oil and gas sector. The lessons gained over the last decades are that the most efficient oil and gas producers are benefiting from a separation of roles and responsibilities between ministries, regulatory bodies and the commercial operations of a national oil company. The Governments, owning the resources below ground, have to set broad national priorities in developing the hydrocarbon resources, formulate hydrocarbon laws and policies and creates the necessary regulatory bodies and the regulatory environment. The National Oil Company must turn resources below ground into commercial assets, and add value to the resources.

Norway is a perfect example where such separation of functions existed, which led Statoil to evolve into an independent and competitive operating company, preparing it for eventual privatisation. But in most developing countries there is still considerable overlap between the functions of the Petroleum Ministry and that of the national oil company.

The Norwegian experience is based on establishment of a 100 per cent government owned national oil company under the same rules as a private shareholding company and with transparent accounts. The Articles of Association described the responsibilities of the non-executive and professional Board of Directors in Statoil. An annual investment plan was presented to Parliament, but the national oil company was not financed from the state budget. The company's focus was on developing a profitable - commercially operated - oil and gas company.

In the mid 1990s, the Government used international banks to assess the value of the company and the company's performance. The national oil company benchmarked its own operations against other operators in annual surveys made by independent consultants. When Parliament in 2001 decided to list Statoil on the stock exchange in New York and Oslo, the company did not have to go through a major restructuring process. Statoil's financial performance, payments to the Government, to Members of the Board and to the Executive Management are publicly available.

The pressure from civil society on the international oil companies for more financial transparency of the resource revenue streams is growing. The pressure on the national oil companies for more accountability will also grow, both from their own governments and from civil society.

Will the Population See the Benefits of Oil? The Case of Azerbaijan

In the last decade we have seen increased attention from academics and civil society on the glaring contradictions in most oil-rich countries between natural abundance and economic and social misery. How can it be that oil is not a blessing, but rather becomes a curse?

Statoil asked two years ago Norwegian research institutions to analyse two countries, Angola and Azerbaijan, and look at the challenges facing them and the oil industry. Our involvement in the two countries was growing fast and we were facing major investment decisions in both countries. To better understand the future of the two countries we asked the researchers to address the following questions: will the oil revenues trickle away or trickle down? [2]

Angola's starting point was in many ways worse than that of Azerbaijan, due not at least to a malign civil war and conspicuously low literacy level, but I will use Azerbaijan as my case since I have worked with the Caspian issues for more than 10 years.

A few years ago journalists visiting Baku brought back articles that reflected the optimism in the region. They wrote of expectations in Azerbaijan of a 'wall of money' coming their way. One could read in American newspapers that '*the region's wealth will shower unimaginable wealth on people whose annual per capita gross domestic product today hovers between 400 and 600 US dollar, building a new El Dorado in nations where camels still outnumber automobiles in 1998'.* [3,]

A Central Asia specialist at the Carnegie Endowment for International Peace, Martha Brill Olcott, probably understood more of the realities when she wrote that *'the most grandiose oil and gas projects are still in their early stages, with their viability and pace of development uncertain. The reality of post-communist development has instead been an increase in corruption and sharp drop in living standards once protected by a comprehensive welfare net*.'[4,]

The experience of the 1990s has shown that the transition will be a complex, demanding and lengthy process, and that the new nations were poorly equipped to take advantage of the new opportunities. Azerbaijan has experienced a little more than ten years of independence since the demise of the Soviet Union. It is therefore far too early to speak authoritatively of the long-term influence that hydrocarbon-derived revenues will have on state and society.

In the West, to date, most of the interest in the Caspian region has been focused on such issues as the geopolitical situation, pipeline routes and the oil and gas potential.

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[2] Petro-states – Predatory or Developmental. Econ and FNI October 2000
[3,] Frank Viviano, 'Caspian Basin boom transforms entire area', *San Francisco Chronicle*, 10 August *Washington Times*, 15 August 1998
[4,] Martha Brill Olcott: 'The Caspian false promise', *Foreign Policy*, Summer 1998

The many conflicts in the Caucasus, especially in Karabakh, have also attracted international attention. However, the huge economic and social problems in the region are rarely mentioned. In Azerbaijan the situation is all the more desperate since, in addition to a host of social and economic problems, it also has to cope with the many refugees and internally displaced people whose lives were shattered by regional conflicts.

Growth in the oil sector has contributed to strong growth in the GDP since 1995, but has not led to a reduction in income inequality. Moreover, more than half of the one million internally displaced persons do not have jobs and live on pitifully small government allowances. The socio-economic challenges in Azerbaijan will undoubtedly gain in importance. Social tension will rise further if the government fails to convert oil revenues into economic growth throughout the republic. Despite strong economic growth, poverty and in-equality remain major concerns. There has been an increase in the unemployment rate, while health and education indicators show worrying downward trends. Poverty and inequality influence the rate and quality of economic growth.

In December 1999 President Aliyev issued a decree to establish an Azerbaijan Oil Fund to accumulate oil and gas revenues, and to manage them efficiently. The chief reason for the establishment of the oil fund was the fact that the government had set itself a vast agenda of social and economic reform. It also wanted to counteract macro-economic distortions and excessive spending in an oil booming economy.

Setting up a fund is no guarantee that the resources will not be misused. It is a tool for making the use of oil revenues transparent. It is not, however, a substitute for sound fiscal management. Ultimately, the success of the Oil Fund will depend on the political will to manage the oil revenues wisely. The message from the Azeri Oil Fund management is that it will make every effort to be transparent, undergoing regular audits, publishing regular reports and auditing findings.

For the first time in its history, Azerbaijan has indigenous control of its natural riches, and the revenues linked to the development of the energy sector. International financial institutions, likewise the Azeri government, are fully aware of the historic evidence from other petro-states, and the need to avoid a similar fate. But the questions are still asked. A generation from now, will the resource-rich Caspian states look more like Norway or more like Nigeria? Will the energy revenues bring a better life to the citizens of Azerbaijan? Will the revenues be spent wisely on such measures as improving infrastructure, health, education and agriculture, and creating new job opportunities? Will they be used to consolidate political and economic independence? Or will the oil wealth be wasted through corruption, frittered away on the construction of mega-projects for public show, on heavy subsidies for consumer goods and services, on programmes to keep the incumbents in power, even on arms race? Or will Azerbaijan follow other petro-states that have not had the state institutions capable of handling the large petroleum revenues? Again – the jury is still out.

A Transparent Oil and Gas Industry

The international oil and gas industry position on transparency is clear. The International Association of Oil and Gas Producers (OGP) has strongly emphasized that the industry is in favour of transparency and oppose corruption in any form.

"*The industry is committed to honest, legal and ethical behaviour in all its activities, wherever the industry operate*", to quote a position document developed by OGP in 2002.[7]

The oil and gas industry also supports the principle of financial transparency of resource revenue streams. The industry organization is committed to working with multilateral institutions, regulatory bodies and other appropriate parties in their efforts to reduce corruption and maximize transparency.

The industry acknowledges that revenues generated by resource development, can – if not properly managed – create distorted economic and social impacts. Good governance is crucial and the industry supports the World Bank's efforts to promote sound financial, legal, judicial, social and physical management capacity and infrastructures to deliver long-term economic development. The industry emphasizes that the discussion of transparency needs to involve a variety of stakeholders, including the oil and gas industry, governments, regulatory agencies, multilateral organizations, financial and lending institutions and non-governmental organizations.

In addressing transparency issues we have to take into account the sovereign right of host governments to limit – or prohibit – disclosure of financial information. The industry can enter into a dialogue with governments to argue for a change, but companies will have to comply with the restrictions imposed by governments. A consistent approach to disclosure is necessary to avoid a situation where some – but not all – companies suffer an unfair competitive disadvantage. The industry also emphasizes a need for a clear and consistent approach to the nature and level of aggregation of the payments to be disclosed.

In recent years Angola has been in focus for oil companies' transparency in payment to the Government by the NGO's. Statoil's response has been to point out that we apply the same standards of openness in Angola as we do everywhere else. The accounts covering our revenues and expenses in Angola are already in the public domain, lodged with the Norwegian Register of Company Accounts at Brønnøysund and available on enquiry.

Under Norwegian company law, Statoil is obliged to file details of our tax and signature bonus payments in each of our subsidiaries to the official Norwegian public registry. All documents are a matter of public record. Statoil's payments to the Angolan

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[7] OGP position paper developed before the World Bank workshop October 2002. OGP represent a variety of international oil companies worldwide.

Government through our Angolan subsidiaries can therefore be found in the public records, and it is as easy to find data about payments to the Angolan Governments as it is concerning payments to the Government of Norway. Statoil is also supporting initiatives that can contribute to the establishment of a common international practice to avoid a situation where individual companies will suffer because of their approach to disclosure. We have however denied a request by Global Witness that we translate our Angolan accounts into Portuguese and distribute them in Luanda. We feel that it would be both wrong and counter-productive to sign on to a political campaign. Wrong insofar as it falls outside what we would define as the scope of legitimate action by a commercial entity, and counter-productive because it could put our access or formal license to operate in jeopardy.

The management and spending of the oil and gas revenues flowing to the government is fundamentally a sovereign responsibility. Ultimately the ability of the oil companies to directly influence the spending plans of Governments is limited. However there are opportunities to indirectly influence the process through provision of information, economic and financial expertise, and advice

Delivering Projects of the Highest Standard

Currently Statoil is involved as a partner in some of the largest oil and gas projects in the world with BP as operator. The projects involve oil and gas production in the Caspian Sea and pipelines running through Azerbaijan, Georgia and Turkey with total capital spent ?? of around $20 billion. The projects are the largest single foreign investment in Azerbaijan, Georgia and Turkey. The operator's and the partners' ambitions are to deliver the projects according to the highest ethical, environmental standards: that the projects contribute to transparency and the struggle against corruption. The companies have a further role to play in that they must continue to be transparent in their relationships with the governments. The disclosure of the content of Production Sharing Agreements with the Host Government on a website is a key part of this process. Further, revenue flows to the government will be reported on a regular basis.[8]

BP initiated in 2002 a regional review of the impact of the projects. "Economic, Social and Environmental Review of the Azeri-Chirag-Gunashli (ACG), Baku-Tbilisi-Ceyhan (BTC) and Shah Deniz Projects in the National and Regional Context" – referred to as the 'Regional Review'. The report will set out to address a number of issues that are of interest to international financing institutions and local and international non-governmental organizations (NGOs). It provides useful information on the projects, and sets out the opportunities and benefits that the projects provide within a national and regional context. It also addresses issues of external interest and how the projects are managing these issues where they can. These issues include: oil and gas revenues, employment and procurement, social investment, domestic energy, ethical performance, human rights, conflict, biodiversity, oil spill response, and greenhouse gas emissions. It includes a forecast of revenues going to the governments.

[8] www.caspiandevelopmentandexport.com

The report was requested by EBRD and IFC in their capacity as potential lenders and, thus, together with the project specific Environment and Social Impact Assessments supports ACG Phase 1 financing. It also is a key element to delivering the projects environmental and social strategies and protection of reputation. The regional review will be formatted professionally and made available on a publicly available website.

The projects are already and will continue to be major consumers of a wide range of goods and services. This expenditure will have an additional positive multiplier effect on the local economies.

The challenge for the oil companies is to ensure that these employment and procurement opportunities are optimised in a way that will contribute towards greater economic development within the region while at the same time managing unrealistically high expectations that are held by some people, which may not be achievable.

During construction, local employment targets will be set and overseen by the Sponsor Companies. Information centres and training programmes have already been established for the ACG project and will be established for the other projects to give the people living in the local communities a better chance to get these jobs. Following construction, the projects' operation phases will require people with a range of technical and business skills. One of the keys to maximizing local labour is to have a long-term view of future operations requirements and to implement a comprehensive training programme starting as early as possible to ensure that when required, staff with the right qualifications are available. A National Technical Training School is being set up in Baku.

The companies are committed to implementing the projects to the highest standards of business ethics. The business policies on health, safety and the environment, ethical conduct, employees, relationships, and finance and control will continue to be integral to how project business is conducted; this includes the prohibition on bribery, facilitation payments and corruption. Auditing by a number of internal and external groups will help to ensure thorough compliance and transfer of best practices. A 24-hour hotline has been set up so that any known or suspected breaches can be reported confidentially and anonymously. Reported breaches will be investigated with integrity while respecting the law and individual human rights.

The companies have adopted the Voluntary Principles on Security and Human Rights by embedding these principles into the projects' security management system. The projects are taking a role in raising these principles with the governments. Governments, NGOs and other experts have already and will continue to be consulted to ensure that potential issues are identified and risks addressed, which is supplemented with a robust community relations programme.

BP has established an independent external commission as part of its intent to ensure that the Baku-Tbilisi-Ceyhan pipeline project sets new standards in responsible development. The Commission, which has a three-year remit and will begin its work in early 2003, will provide objective advice to the company on the economic, social and environmental impact on Azerbaijan, Turkey and Georgia, generally, and on areas closest to the 1,760-kilometer pipeline in particular.[9]

A poll conducted in Azerbaijan on behalf of Statoil in 2000 showed that 70 per cent of the political leaders believed that investments by foreign oil companies would be beneficial and contribute to the development of the country. Among local non-governmental organisations, (NGOs) 73 per cent of respondents were of the same opinion. They were not only enthusiastic about the prospects for economic growth, but saw the oil companies as important partners in the development of civil society.The expectations are still high.

Taking on New Responsibilities

Social or community investments are only a tiny part of the overall contribution of corporations to the societies in which they operate. By extension, corporate giving - whether disinterested or self-interested - is only a tiny part of our involvement. Yet many people still tend to equate corporate social responsiblity with a particular charitable contribution or a special community project. Statoil, for example, is commonly associated with a human rights capacity building project in Venezuela, a community development project in the Niger Delta, or support for the strengthening of democratic institutions in Azerbaijan.[10]

What do these projects say about Statoil's approach to community investments? We have moved beyond charity and aim to contribute to sustainable development. We seek to help build local capacity in the fields of education, human rights and self-government. We prefer a model with tri-sector partnership. Statoil will work with and through local authorities and non-governmental organizations, supporting activities that they have initiated on the basis of detailed knowledge of local needs. We do not envision establishing a foundation and running these projects ourselves. We do not look askance at projects if they also happen to build our reputation, enhance the morale of our employees, and promote our brand.

The experience with tri-sector partnerships in the field and stakeholder engagement through the UN Global Compact, has spurred increased cooperation between Statoil and a select few Norwegian NGOs and international humanitarian and development organizations. Our civil society partners are all true champions of good causes. And there is no denying that we want to be seen as a supporter of these organizations and causes, in part because such an association can strengthen our reputation for social responsibility.

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[9] BP commission established December 2002, chaired by Jan Leschly,

[10] By Geir Westgaard, Vice President, Statoil, The 2002 Leadership Conference on Global Corporate Citizenship: Creating Value Through Strategic Stakeholder Engagement, New York City, February 11-12, 2002

However, we also want to improve our risk management by tapping into the wealth of knowledge that these organisations possess. Through these partnerships we can gain access to information that may improve our understanding of a complex situation in a faraway land burdened by instability and conflict. We will also be able to draw on the rich experience of our partners when preparing Statoil personnel for assignments in locations that require special sensitivity to the challenges of health, safety and security, human rights, and bribery and corruption. In other words, our partners can help make us better corporate citizens and businesspeople.

Conclusions

The keys to successful implementation – good corporate governance, risk management and human resource management – are, of course, no different from the keys to business success in general. Success also hinges on our capability to listen to those who affect and/or are affected by our activities, to understand what is happening in society, and to argue our case with anyone at any time.

We have to begin with ourselves, and the way we treat our employees. If we cannot manage our most precious assets right, then we will be shirking our responsibility to both shareholders and society at large. Adherence to core ILO labour standards, as well as investments in the health, safety, education and training of our own employees, lie at the heart of our corporate culture.

Freedom of association is not guaranteed in all the countries where Statoil is present. Neither is the right to collective bargaining. But all our employees have a voice in the workplace, be it through councils, committees or general assemblies. We believe this helps instil a sense of trust and belonging throughout the organization. Three employee representatives also serve on the company's non-executive Board of Directors. The workforce elects representatives in among themselves.

With regard to health, safety and environment (HSE) in the oil industry, the gap between global and local standards is closing. The leading international oil companies now apply the same standards wherever they do business. The cornerstone of Statoil's HSE culture is the zero mindset with its objectives of zero harm to people and the environment and zero accidents or losses.

Given the big money associated with the oil industry and the weak politico-institutional basis of some of the countries in which we operate, international oil companies must pay special attention to the risks of bribery and corruption. Three elements are key in the prevention of corruption in our activities and operations. We have a policy of zero tolerance, clearly communicated in both words and deeds by top management. We strengthen awareness and understanding through by training programs and support mechanisms such as ethical audits. And we operate with strict financial and procurement controls.

Statoil finds the dialogue with the civil society useful, but it requires a certain level of mutual respect and trust. The parties involved must be ready to talk both to and with each other. They must be willing to listen and engage in debate. Only then can a stakeholder dialogue serve the purpose of revealing complexities – in all directions. My feeling is that both the industry and civil society organisations are more ready for that kind of a relationship today than a decade or two ago. In Norway, Statoil has established a special environmental forum for engagement with the leading NGOs, and we are currently also building dialogue forums internationally.

But we also have to participate in the public debate, facilitate exchange of ideas and lessons learned. An ongoing public debate around the use of the petroleum revenues is essential if petroleum revenue management is to succeed. Willingness to seek advice and learn from experience gained in other countries is important.

Oil companies can never assume the responsibility of political institutions, or become substitutes for such institutions. But the industry can take part in the dialogue. And can, too, apply its values and standards wherever it operates.

A successful development of oil and gas alone is however not enough to ensure the harmonious development of the country's economy. In the early years of the oil era in Norway, Prime Minister Trygve Bratteli told Parliament: 'We cannot live only on the oil revenues.' [11] He gave a very sound advice to Norway then. It is still a very sound advice for Norway. Maybe also for other petro-states?

[11] Debate in Parliament 1974 based on White Paper no 25 (1973-74) on the use of oil revenues