

# **Strengthening Conflict-Sensitive Business Practices in Vulnerable and Conflict-Affected States**

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Ladies and gentlemen,

Thank you for your kind invitation.

In recent years, relations between the corporate sector and society at large have attracted increasing public attention. Today, the subject occupies a large part of my own professional life as well.

I therefore welcome this opportunity to address you on the issue of business practices in conflict-affected countries.

Before I dive into today's theme, please allow me to say a few words about my company, just to let you know my point of departure. With 24,000 employees and an average daily production of 1.1 million barrels of oil equivalents, Statoil ranks as a medium-sized international oil and gas company.

Founded in 1972, our business activity was developed for 30 years as the National Oil Company of Norway. This heritage has affected our corporate values and culture, as well as our relationship to society.

Even today, we feel that the non-financial demands and expectations from the Norwegian public that we have to meet are tougher than for most of our competitors. But that is also the way we like it.

As I like to see it, corporate social responsibility – or CSR – covers the whole range of a company's interaction with society at large: From HSE to policy and governance issues, labor conditions, social development and human rights.

Many people argue that corporations should focus on their business, and nothing else. At the same time, we observe that the most successful and vigorous companies today seem to have a distinct set of core values – and a purpose beyond profits.

This is what is normally referred to as the ethical aspect of CSR: Company behavior as a result of a moral obligation.

But it doesn't stop there. Actively adapting business operations to our social surroundings reduces risk, enhances reputation and thereby improves profitability. Commitment to CSR can strengthen our position in labor, capital and consumer markets.

I will therefore argue that CSR is about self-interest rather than altruism – and that principles go hand in hand with commercial interests. Today's theme is no exception.

Business is about revenue. But so, all too often nowadays, is conflict. The stream of revenue that any successful business venture generates can quickly become the object of a conflict for control. And once that conflict has been ignited, the revenue itself may be the fuel that keeps the flames alight.

That is why proper revenue management can be a powerful tool against conflict, and why I would like to focus especially on revenue management today.

The larger the stream of revenue, the greater the danger and the closer the link with conflict. And in the oil and gas industry the streams of revenue we generate are vast.

All too often in the past, we have seen those streams arrive like a thunderstorm on the parched soil of a poor country, sweeping away instead of watering and making things grow. Control and management are the only way to ensure that what should have led to growth doesn't end up in devastation.

Fortunately, the potential in increased revenues is not only negative. In fact, used properly the wealth created by oil and gas can reduce the very poverty and deprivation that often leads to conflict. At the same time the arrival of an international industry like ours will help to reduce a country's isolation, and therefore improve the conditions for solving conflict.

The direct revenue from the resources we help to produce is one thing. But no less important are all the spin-offs, side-effects and the potential for development that petroleum production in a country brings. The opportunities for local industry, for education and for employment, are all indirectly just as much a part of the revenue I am speaking of. And like direct revenues, indirect repercussions must be managed responsibly at every stage. Otherwise, the waste, loss and misuse that result may lead to conflict.

A chain is as strong as its weakest link. Successful revenue management means control at every stage and by every institution through which the stream of revenue passes.

But how much can a company do to ensure that the revenues it helps to generate are managed properly? And, given that business is only one player in a complex process where authorities, financial institutions and international organizations also have a vital role, how much should a company do?

The first question that must be decided by a company evaluating entering into a country in conflict or in a vulnerable position is of course: Should we be there at all?

The obvious questions have to be answered first: Do the authorities in the country enjoy international recognition? Can we guarantee the security of our employees? Is there local commitment to progress?

Then we have to look at the probable results of our entry. What will be the probable impact of our presence and the activities we are planning to carry out? And the revenues that we hope to generate? If there is no support for responsible management of revenues, then it will not help that we have the best intentions. If we find that we cannot do business in line with our ethical principles, or that our impact will end up being negative whatever we try to do, then it is better for us to stay out. Commitment and alignment between the different stakeholders is critical for the chance of obtaining sustainable progress.

This underlines the importance of a proper impact assessment at the very start. Understanding risks by analyzing them is vital. And as always, the earlier this is done the greater is the chance of reducing the risks of avoiding them altogether. And that does not only mean the risk of losing our investments or sustaining damage to our reputation. What also concerns us is identifying and putting into practice whatever we can do to ensure that revenues are managed properly.

After a decision has been made to enter into a project in a conflict-affected region, there are more choices to be made, many of them just as important as the question of whether or not to go in. For example, how are we to conduct our business so that we are not seen as being complicit in the conflict itself? Or of being actively on the side of a brutal regime. When these answers have found satisfactory answers, there are several concrete things that a company can do in order to help reduce the level of conflict, not least related to revenue management.

A company can do most on an operational (micro) level, but can also contribute to conflict prevention through improved revenue management on a national (macro) level. It can be argued that the best way of preventing conflict on an operational level is to generate revenue, and then let it trickle down to the local community through local recruitment, local sourcing and social investments. In my opinion, such spin-offs lie at the heart of a company's corporate social responsibility. Consequently, a company needs to develop a viable local content program and involve local stakeholders in its execution.

This is a necessary but not sufficient prerequisite for a successful conflict prevention strategy. Revenue management is not just about creating and distributing revenue – it is also about management of expectations. Often, conflicts arise from expectations that are not met: lack of adequate land compensation, disagreements over wages, failure to develop and use local suppliers, or neglect of problems in host communities. In some cases, the term “host community” is a seed of conflict in itself – what makes one (and not another) village or town eligible for support from a company? Whether such expectations are justified or not is not really the point – the point is that all of these grievances can lead to conflicts.

The best course of action for a company that wishes to prevent conflict is to be clear about its activities from the outset. A company needs to know what employees, suppliers and people in general expect in terms of benefits. Then we should explain what we can deliver - and how and when we are going to do it. Social and environmental impact assessments therefore need to be followed up in continuous engagement with stakeholders: anything ranging from formal bargaining to town hall meetings.

In addition to serving the purpose of information exchange, such fora can and should be used for dispute settlements. It is not my intention to underestimate the value of a fair legal system, which is one of the pillars of a democratic society and a healthy business climate. But there is a clear advantage in being able to resort to more informal dispute settlement mechanisms where emerging conflicts can be dealt with in a more cooperative and less costly manner. The legal system is vital, but should be resorted to when informal means of conflict resolution have been exhausted.

Such a summary description of the conflict-preventing measures available to a company does not fully reflect how difficult this is in practice. To use revenue management strategically to prevent conflict requires alignment with partners and other stakeholders, as well as substantial management resources – and time. Conflict does not disappear overnight, but as a result of determined efforts over a longer period.

Nevertheless, on an operational level the company will have a fairly well defined scope of action, and some control over the outcome. Preventing or reducing conflict on a national level is a much more complex task. On this level the company's responsibility and scope of legitimate action are harder to define. Some would even question whether a company should engage in such issues at all.

In my opinion, our industry's responsibility must be commensurate with the impact of the revenues we generate. Therefore, the question is not really whether an oil and gas company should engage, but what it can actually do. And on a national as well as on an operational level, revenue management is probably the most efficient tool available to a company wishing to alleviate conflict.

Ensuring peace and stability in a country is not the primary responsibility of a company or even an industry. A company can contribute, but successful conflict alleviation depends more on how well the company's efforts can be coordinated with those of other actors, than on what it does in isolation. It is of the utmost importance to find a legitimate sphere of influence when dealing with such issues, but there is no absolute definition of it. It depends on what is acceptable to the other actors in society, and to the company itself, in a particular context.

So what can – and should – a company do?

- Firstly, it can find ways of increasing revenues through experience transfer, technological development, and by making sure that social investment activities are aligned with national development plans.
- Secondly, every company should ensure that their own organization is transparent and accountable in every aspect of operations, and that behavior is in accordance with strict ethical codes. This includes full openness about the payments the company makes, and ensuring that these are made only into official accounts and are fully auditable.
- Thirdly, it can raise administrative capacity and thereby help to identify better ways of distributing revenues.
- Finally, a company can support civil mechanisms for dispute settlement, thereby reducing the need to resort to violence. On a national level this means helping create arenas where the different segments of society can meet and

discuss, and it means contributing to develop or supporting a fair, independent and efficient legal system.

None of the above is “off limits” provided the company’s actions are acceptable to authorities and other stakeholders. If all actors have the capacity, competence and commitment to cooperate, a company can make a tangible contribution to conflict prevention.

In 1992 the newly-independent Azerbaijan, historically one of the biggest oil producers in the world, faced the resurgence of old conflicts suppressed during the Soviet period. The unsettled dispute over the enclave of Nagorno Karabakh resulted in an open war in which the Armenians defeated the Azeri army. A million refugees poured into Azerbaijan before a cease-fire was signed in 1994.

Azerbaijan sees its oil and gas reserves as the key to limiting the influence of powerful neighbors Russia, Turkey and Iran. The authorities therefore offered foreign oil companies the chance to develop their offshore reserves. Today Azerbaijan is one of Statoil’s international core business areas and we are one of the largest investors in the country.

Our involvement in development is on three levels: developing our business, assisting the authorities in building a transparent system for revenue management, and supporting dedicated social projects.

By doing our own business in an efficient way Statoil is promoting economic development in Azerbaijan. The use of production sharing agreements where the host country takes 80% of the profit, gives an incentive for efficient operation. In addition to managing the direct revenues, our projects specify that over time Azeri’s will have close to 100% of the jobs created and there will be a link for each individual to knowledge networks outside Azerbaijan.

As a Norwegian I am proud to say that in my home country we have developed a sustainable system for the oil and gas sector. There is full national political control of the revenues created as well as transparent international competition.

Statoil and the Norwegian authorities have been heavily involved in helping Azeri authorities to secure good revenue management using our experience. This includes the establishment of a Government Petroleum Fund, and a Gas Master Plan.

As far as direct social investment is concerned, we base our involvement on the following principles:

- Focus on health and education, human rights and governance.
- Cooperation with Statoil's global NGO Partners including the Red Cross, UNHCR and Amnesty International.
- We target groups and organizations, and avoid donations to individuals.

I believe this gives one concrete example of how a company can become actively involved in an area where conflict has long been a part of the operational framework.

The important lessons of our involvement in Azerbaijan and other conflict areas continue to play their part once the decision to engage in a new area has been taken. These lessons include knowing what the impact of our presence is likely to be, having realistic expectations as to what influence we may have and when, and the need to co-operate closely with the other stakeholders so that there is alignment between us on what we want to achieve.

Alignment is of vital importance. Statoil's experience shows us that our business, properly managed, can make a positive contribution in areas where conflict is a factor. This requires a responsible approach and proper understanding and management of risks. But it also requires alignment. Only if all the major stakeholders share the same objectives for social and economic development, will strengthening our business practices in conflict zones have the full effect we all desire. My hope for this conference is that it should take us a significant step further in terms common understanding and commitment to these issues.

Thank you for your attention.