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## Oil and gas companies and the management of social and environmental impacts and issues: The evolution of the industry's approach

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WIDER Working Paper 2017/22

## **Oil and gas companies and the management of social and environmental impacts and issues**

The evolution of the industry's approach

Kathryn Tomlinson\*

January 2017

**Abstract:** This paper provides an overview of social and environmental management practices in the oil and gas industry. It outlines the evolution of international oil companies' approaches over the last 20 years, reviews what social and environmental management amongst such companies means in practice, and highlights some of the unresolved issues emerging today. While most companies now model their approach to social and environmental management on international norms, they face a variety of drivers of their practices. These range from complying with international standards in order to gain access to finance, to complying with new host country legislation and regulation, and gaining and maintaining a good reputation and a 'social licence to operate'. This paper argues that the complexity of these drivers problematizes the portrayal of the industry's social and environmental management as 'voluntary' corporate social responsibility, and somewhat renders the latter term misleading.

**Keywords:** social performance, social investment, corporate social responsibility, impact management, extractive industries, oil and gas industry

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## 1 Introduction<sup>1</sup>

In the 1990s, the environmental and social impacts of extractives industries on communities increasingly became debated in various forums, and extractive companies faced mounting criticism in the media and from NGOs, academics, and wider civil society. In the oil and gas industry, this situation partly came about due to the high-profile negative impacts of certain oil and gas operations, such as the Exxon Valdez oil spill in Alaska (1989), the clash between Royal Dutch Shell (Shell) and Greenpeace over the disposal of the Brent Spar oil rig in the North Sea (1995), the execution of Ken Saro-Wiwa, who was campaigning against Shell in Nigeria (1995), and BP's and Talisman's alleged complicity in security-related human rights abuses in Colombia (1997) and Sudan (1999) respectively. In the mining sector, it was cases such as the tailings dam failure of BHP's Ok Tedi mine in Papua New Guinea (1984), Placer Dome's Marcopper mine in the Philippines (1996) and the subsequent ongoing pollution, and the conflict in Bougainville sparked by Rio Tinto's mining operations (1989) that drew the most attention and criticism. As a result of these cases and others, damning reports were published and targeted actions undertaken, such as the picketing of companies' head offices, service stations, or shareholder meetings.

Specific campaigns against oil and gas companies started to gain wider momentum during this period. The criticisms levelled at the industry covered a wide range of issues, including allegations that oil wealth fuelled corruption and conflict, and propped up repressive governments;<sup>2</sup> suggestions that the companies were either complicit in or benefitted from human rights abuses committed by host governments and security forces (such as in the Shell Nigeria and BP Colombia cases);<sup>3</sup> complaints about negative environmental impacts from oil and gas projects (such as oil spills and flaring), leading to environmental damage, and health and livelihood impacts on local communities;<sup>4</sup> and rising awareness of the wider environmental question of the industry's role in climate change and how it collectively approached the subject, including allegations that the industry was actively promoting climate change denials. Within the wider 'resource curse' debate, it was pointed out that although oil and gas projects were generating vast sums of wealth for low- to middle-income countries, many communities affected by these projects, such as in Nigeria or Angola, continued to live in poverty, and had in fact become worse off than previously due to the presence of oil and gas projects. Finally, many critics of the industry decried what they saw as a lack of transparency in the industry, and a propensity for active corporate lobbying against social and environmental legislation.<sup>5</sup>

As the campaigns against the industry intensified by the late 1990s, some companies started to respond to the criticisms, and began to address social and environmental issues in their operations. Since then, broadly speaking, there has been an evolution of the management of social and environmental issues in the extractive industries, from a general neglect of these issues coupled with ad hoc philanthropy to a risk management approach modelled on specific international

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<sup>1</sup> This paper represents a social practitioner's perspective on social and environmental performance in the oil and gas industry. In terms of methodology, although I refer to the academic literature on corporate social responsibility in the oil and gas industry, the paper is largely based on a review of primary materials such as company sustainability reports and NGO reports, as well as my own observations and experiences of working within the extractive industries, particularly the oil and gas industry, over the last 10 years.

<sup>2</sup> See e.g., Global Witness (1999).

<sup>3</sup> See e.g., *The Economist* (1997) and Human Rights Watch (1999).

<sup>4</sup> *The Economist* (1997); Human Rights Watch (1999).

<sup>5</sup> See e.g., Christian Aid (2004).

standards. Today, the principles of social and environmental management in the extractive industries can be broadly summarized as ‘do no harm’ and ‘provide benefits’ at the local community level, and a number of tools and approaches have been developed and are variously implemented across the industry to address these two high-level aims. This paper focuses on the evolution of the management of social and environmental issues in the oil and gas industry specifically, with some comparisons with the mining industry. It also presents how the industry has responded to external criticisms around social and environmental issues, and how it is now approaching the management of these issues.<sup>6</sup> The paper examines some of the key international standards that have shaped this area, breaks down what the management of social and environmental performance actually means in practice, and looks at some of the gaps and ongoing debates in the implementation of social and environmental performance in the industry. Ultimately, the paper argues that the area of social and environmental performance in the oil and gas industry is often misrepresented in the broader literature under the umbrella term ‘corporate social responsibility’, which in turn has led to general misunderstandings around the drivers of this management area, as well as of the nature of social performance itself.

## 2 The initial industry response

Faced with mounting criticism from NGOs and activists, by the late 1990s oil, gas, and mining companies had come under increasing pressure to reform the ways they operated. At the time most large western extractive companies had some kind of internal corporate environmental policy and management system in place, but very few had explicit social performance policies or were strategically managing social and community issues (McPhail and Davy 1998: 57). Interestingly, in responding to this pressure the mining industry took a different trajectory from the oil and gas industry. At the time, several chief executive officers (CEOs) of international mining companies decided that their industry needed to address the issues of mining and sustainable development in a more coordinated manner (Littlewood 2000). As a result of this decision, nine of the major mining companies grouped together to form the Global Mining Initiative (GMI), to spur a major study of mining and sustainability entitled ‘Mining, Minerals, and Sustainable Development’ (MMSD). The aim of the MMSD project was to carry out a comprehensive survey of the sector and identify a path towards more responsible behaviour and improved reputation (MMSD 2002). The GMI eventually led to the creation of the International Council on Mining and Metals (ICMM), which was founded in 2001 to improve sustainable development performance in the mining and metals industry (Franks 2015). The ICMM was set up as a CEO-led industry association with a mandate based on the core recommendations of the MMSD project, and over the years it helped both to standardize the mining industry’s approach to social and environmental issues and to promote good practice norms through the development of industry standards and

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<sup>6</sup> It is worth noting that it is difficult to speak about the oil and gas industry as a whole, as it can be roughly divided into international oil companies (IOCs) and national oil companies (NOCs). The IOCs comprise seven ‘supermajor’ publicly owned multinational companies (ExxonMobil, Chevron, BP, Shell, Total, ENI, and ConocoPhillips), and numerous medium-sized to small independent oil and gas companies (e.g., Hess, Marathon, OMV, BG Group, Anadarko, Tullow, Woodside, etc.). Currently the largest oil and gas companies in the world based on revenue are made up predominantly of NOCs (e.g., Saudi Aramco, Gazprom, PetroChina, Petrobras, Sinopec, Kuwait Petroleum Corporation, etc.), and these are increasingly competing with IOCs in oil and gas development. However, it is mainly IOCs that have experienced external pressure from NGO campaigns, adverse media reports, and shareholder activism, and as a result it is predominantly IOCs that have pushed and developed the agenda of social and environmental management. NOCs, on the other hand, have often been used by governments as vehicles for local development, and therefore tend to have a view that equates social performance with corporate philanthropy (e.g., PEMEX in Mexico, PDVSA in Venezuela, Petrobras in Brazil, and Saudi Aramco in Saudi Arabia). Furthermore, in my experience, there is a variety of practices and conceptions of what social and environmental management in oil and gas operations should look like. Nevertheless, this paper will look at some of the broad trends in the industry, whilst also trying to point out the differences in policy and practice.

good practice guidance (see Hodge 2017) for a more in-depth discussion of the mining industry and sustainability).

The oil and gas industry, on the other hand, did not collectively respond to these external pressures. No comprehensive sustainable development review of the industry took place, and there was no industry-wide response to sustainable development issues, let alone one led by company CEOs. Though there was already a global oil and gas industry association for environmental and social issues called IPIECA,<sup>7</sup> its influence on the industry was limited.<sup>8</sup> Indeed, during this period, change around social and environmental management amongst IOCs was mainly being led by individual companies, in particular Shell and BP, while the rest of the industry lagged behind on these issues. Utting and Ives (2006) have elaborated on this issue of the ‘leaders’ versus the ‘laggards’ with regard to social and environmental management in the oil and gas industry. They argue that this difference in approach, between proactive IOCs such as BP and Shell, and others such as Exxon, Chevron, and Total, can be explained by a complex mixture of differences in the pressures applied to companies by NGOs, which tended to focus on specific countries and companies at the expense of others—such as Shell in Nigeria—and the pressures exerted by shareholders and governments, as well as by internal leadership (Utting and Ives 2006: 23–6). As with many of the mining companies that spearheaded the GMI, Shell and BP’s approach to social and environmental issues in the late 1990s was driven by their experiences of social and political crises in Nigeria and Colombia respectively, and of the resulting civil society pressures, as well as by internal senior leadership.<sup>9</sup>

Throughout the 1980s and 1990s, the oil and gas industry mainly focused on improving health and safety, and to a certain extent environmental performance. There was very little focus on social performance and impacts on communities other than the usual philanthropic community development projects and donations. From the late 1990s, Shell and BP started to engage more with external stakeholders, in particular various civil society groups and NGOs, as well as to set up internal social performance units to drive better social management throughout the business. The mandate of these new social performance departments was to push for better social performance throughout the business to ensure impact management, proper consultation with local communities and more widely impacted stakeholders, and more sustainable community social investment projects linked to the business (see e.g., Fossgard-Moser 2005). With regard to environmental management, the new approach involved tackling and engaging with wider environmental issues beyond local permitting regulations, such as climate change, gas flaring, and biodiversity. Notably early compared with its peers, in 1997 BP became the first oil and gas company to publicly recognize the risks of climate change and push for industry to take a role in finding solutions.

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<sup>7</sup> When IPIECA was originally set up in 1974, the acronym stood for the International Petroleum Industry Environmental Conservation Association. However, in 2002 IPIECA stopped using the full title and now only refers to itself as ‘IPIECA, the global oil and gas industry association for environmental and social issues’.

<sup>8</sup> IPIECA was formed in 1974 following the launch of the United Nations Environment Programme, and its mandate was, and continues to be, to help ‘the oil and gas industry improve its environmental and social performance by: developing, sharing and promoting good practices and solutions; enhancing and communicating knowledge and understanding; engaging members and others in the industry; working in partnership with key stakeholders’ ([www.ipieca.org/](http://www.ipieca.org/), accessed 28 December 2016). Unlike the ICMM, IPIECA has not developed binding standards or policies for members, and it is not CEO-led. It also works on a significantly smaller budget, with membership fees a fraction of those of the ICMM. As a result, the extent to which IPIECA has driven good practice in social and environmental performance in the industry is questionable.

<sup>9</sup> John Brown, CEO of BP between 1995 and 2007, was known to promote the importance of good corporate citizenship, and during his tenure at BP took a very involved leadership role in pushing for better social and environmental performance in the company (Bader 2014). Within Royal Dutch Shell, Mark Moody-Stuart, chairman of the company between 1998 and 2001, reportedly believed that ‘sustainable development and financial performance are inextricably linked’ (*The Independent* 2000).

In terms of company standards, Shell took the first step in 1997 to update its business principles to include commitments to manage its social impacts and be a ‘good neighbour’ to the communities in which it operated. In 1999, after the merger with Amoco, BP updated its business policies to include commitments on ethical conduct, employees, relationships, and health, safety, and environmental performance. Both companies publicly expressed their support for human rights, and also took an active role with the UK and US governments and various human rights NGOs in bringing about one of the key voluntary human rights standards for the industry, namely the Voluntary Principles on Security and Human Rights (VPs).<sup>10</sup>

In effect, Shell and BP during this period started to shift the field away from a ‘business as usual’ approach—characterized by the attitude that a company’s role is to focus on its core commercial business, comply with local laws, pay its taxes, and provide a few ad hoc benefits to local communities—to a ‘good corporate citizen’ approach. This new approach was characterized by the view that strict legal compliance is often not enough, and that social and environmental impacts can be complex and multifaceted, necessitating more comprehensive management focused on impact management, benefit enhancement, and relationship-building with external partners. Part of this approach involved developing internal corporate codes of conduct and establishing corporate functions dedicated to what became known as ‘social performance’ issues, as well as publishing annual reports detailing how they were managing social and environmental issues, joining various international initiatives aimed at improving social and environmental standards in industry, and engaging more openly with some of the NGO critiques.

### **3 Laggards catching up: the impact of international standards**

Despite the variations in initial company responses to social and environmental management in the oil and gas industry, most IOCs eventually started to take the same direction in their approaches. This incremental change across the industry can be partly explained by companies influencing each other’s behaviour, as well as by growing societal expectations around company conduct, and an emerging group of social and environmental professionals sharing and implementing practice across the industry. However, the development of international norms has played a major role in pushing the wider industry at least partly along the same trajectory as BP and Shell took in the late 1990s.

In the last 15 years, a number of international standards related to the management of social and environmental issues in the extractives or the business sector more widely have been developed, more often than not through multi-stakeholder processes. For example, the above-mentioned VPs are a standard that has widely shaped the way IOCs manage the security of their operations. Similarly, the UN Guiding Principles on Business and Human Rights, developed over several years and unanimously approved by the UN Human Rights Council in 2011, have arguably led to most major and medium-sized IOCs developing internal human rights policies and focusing more on their community grievance mechanisms. But the standard that has had the most impact on the oil

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<sup>10</sup> Established in 2000, the VPs were designed as a set of voluntary principles specifically for the extractive industries, with the aim to guide companies in maintaining the safety and security of their operations within an operating framework that encourages respect for human rights ([www.voluntaryprinciples.org](http://www.voluntaryprinciples.org), accessed 28 December 2106). The VPs initiative is a tripartite multi-stakeholder group, currently made up of nine governments, 30 extractive companies, and 10 NGOs. As of 2016, all of the five major international oil and gas companies are signatories of the VPs (Shell, BP, Exxon Mobil, Chevron, and Total), as well as a number of large to medium-sized international oil and gas companies (Conoco Phillips, Hess Corporation, Marathon Oil, Occidental Petroleum Corporation, Repsol, Statoil, ENI, Pacific Exploration & Production Corporation, Premier Oil, Seven Energy, Woodside Energy, and Tullow Oil), but no national oil and gas companies.

and gas industry and how it approaches social and environmental issues is the International Finance Corporation (IFC) Environmental and Social Performance Standards.

The IFC Performance Standards came about as the result of years of pressure from civil society on the IFC, as well as controversy around IFC projects such as the Pangu Hydroelectric project in Chile (Franks 2015: 4). Building on the World Bank Social and Environmental Safeguard Policies and the recommendations of the independent review report on the Pangu Hydroelectric project, the Performance Standards were developed in the first part of the 2000s, formally published in 2006, and updated in 2012. Applying to IFC private-sector clients operating in emerging markets, there are eight IFC Performance Standards: Assessment and Management of Environmental and Social Risks and Impacts; Labour and Working Conditions; Resource Efficiency and Pollution Prevention; Community Health, Safety, and Security; Land Acquisition and Involuntary Resettlement; Biodiversity Conservation and Sustainable Management of Living Natural Resources; Indigenous Peoples; and Cultural Heritage. These standards cover most aspects of the management of social and environmental issues facing oil and gas projects from early project development through to construction, operation, and closure.

The Performance Standards can be seen as groundbreaking for their time, presenting for the first time a comprehensive set of environmental and social standards, which detailed real steps a private sector project needs to take to manage its environmental and social risks and impacts. Importantly, these standards went beyond the vague policy statements of guidelines such as the Global Compact. Overall, the IFC Sustainability Policy, as embodied in the Performance Standards, can be summarized as ‘do no harm’ and ‘enhance positive development outcomes on the ground’ (IFC 2012: 2). Since their inception, the IFC Performance Standards have become the international best-practice benchmark for social and environmental risk management in the extractive sector, widely referred to by social and environmental practitioners, even for projects that are not seeking IFC funding. Furthermore, the Equator Principles—an environmental and social risk management framework adopted by most major international banks and applied to private-sector projects seeking financing from these banks—are modelled on the IFC Performance Standards, therefore furthering the influence of these standards. As a result, the IFC Performance Standards have become a significant contributing factor to a gradual shift towards wider adoption of social and environmental risk management amongst IOCs, and a majority of IOCs now model their internal environmental and social standards on the IFC Performance Standards to a certain extent.

The growing interest of mainstream investors, from both international banks and private equity investment funds, in environmental, social, and governance (ESG) investment criteria to assess oil and gas firms’ activities is an additional factor in shaping the industry’s approach to social and environmental issues (BSR 2012; Crosse and Horaks 2014). In particular, investors with a long-term focus on investments such as pension funds and sovereign wealth funds have been increasingly integrating ESG criteria across their portfolios and applying pressure on IOCs to improve their performance in this regard (BSR 2012). The recent example of Norway’s Sovereign Wealth Fund putting pressure on ExxonMobil and Chevron to report in more detail on the risks of climate change, and in 2013 threatening to sell shares in IOCs operating in Equatorial Guinea because of the clear lack of benefit to the local populations, is a case in point (Doyle and Fouche 2016; Fouche 2013).

The overall approach to social and environmental management amongst IOCs today is therefore one of risk management based on the overall aim to ‘do no harm’ and ‘provide benefits’ to local communities. What we have seen in the multinational oil and gas industry, over a trajectory of 20 years or so, is a gradual shift from a ‘business as usual’ approach—characterized by very little engagement with the social arena other than through philanthropy and small social investment projects in neighbouring communities, and a legal compliance approach to environmental



management—to an environmental and social risk management approach modelled on various international standards. Most IOCs today are members of the VPs; have human rights policies or statements that claim to be consistent with the UN Guiding Principles; have social and environmental policies and management frameworks modelled to a certain extent on the IFC Performance Standards; and adhere to international environmental and health and safety standards.<sup>11</sup> The next section looks at what this approach actually means in practice, and at some of the gaps and issues that have emerged in its implementation.

#### **4 Environmental and social performance in the industry today: the realities and problems of practice**

Environmental management in practice broadly entails impact identification and management. Most IOCs (in common with mining companies) will prepare environmental impact assessments (EIAs) early on in project developments, and then implement environmental management plans to manage environmental issues throughout operations (BP 2015; Chevron 2015; ENI 2015; ExxonMobil 2014; Royal Dutch Shell 2015; Statoil 2015; Total 2014). Specifically, the major IOCs report that they implement measures to limit impacts on and protect biodiversity in areas where they operate; minimize water consumption and discharges; implement preventative measures to avoid spills, and measures for rapid spill response in case of spills; reduce damaging air emissions such as volatile organic compounds that have negative impacts on human health; and reduce greenhouse gas (GHG) emissions in order to address the risk of climate change through improved energy efficiency in operations, as well as reduced flaring, venting, and fugitive emissions (BP 2015; Chevron 2015; ENI 2015; ExxonMobil 2014; Royal Dutch Shell 2015; Statoil 2015; Total 2014). Some companies, such as ExxonMobil and Statoil, report that they are actively exploring carbon capture storage techniques as well. In terms of quantifiable data, all of the major IOCs report on the volume of operational spills, GHG and other emissions from gas flaring and refineries, water use, and waste disposal. From a health and safety perspective, the common approach across the industry is to implement policies and management systems, and to report annually on fatalities, injuries, and process safety incidents. In sum, in terms of actual performance outcomes, it is clear from the data that the environmental and health and safety performance of large IOCs has improved over time, with overall reductions in fatalities, oil spills, freshwater consumption, and air and GHG emissions (BP 2015; Chevron 2015; ENI 2015; ExxonMobil 2014; Frynas 2010; Royal Dutch Shell 2015; Statoil 2015; Total 2014).

However, despite this overall improvement in environmental and health and safety performance in IOCs, there are clearly still ongoing environmental issues and unmitigated impacts amongst IOCs as well as across the industry as whole. Furthermore, the push to find new resources is leading companies to engage in higher-risk types of operation in more remote places, such as deep-water drilling, or drilling in the Arctic. These types of operation usually involve the potential for more significant environmental impacts. The 2010 BP Deepwater Horizon rig explosion and subsequent oil spill in the Gulf of Mexico is a high-profile example demonstrating this problem. This particular environmental and health and safety disaster resulted in 11 fatalities and the largest offshore oil spill in US history. Subsequent investigations demonstrated a history of cost-cutting and risk-taking beneath the rhetoric of improving environmental and health and safety performance (Lyall 2010; Morrison 2014: 5–9). Recurring oil spills, such as in Russia or the Niger delta, and ongoing gas flaring in the Niger delta and other parts of sub-Saharan Africa, are other examples of poor environmental performance in the industry (Greenpeace Russia 2014; Luhn

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<sup>11</sup> E.g., ISO 14001 and OHSAS 18001.

2015). The fact remains that although the oil and gas industry has improved its environmental performance over the last couple of decades, in large part due to the development and tightening of national environmental regulation as well as increased public scrutiny, it remains an industry with significant negative impacts on the environment, in particular with regard to oil spills and GHG emissions.

In terms of social performance, the general practice amongst IOCs is one of managing social impacts at the local community level through social impact assessments (SIAs) and social impact management plans, with a particular focus on critical issues such as impacts on indigenous peoples, resettlement, or cultural heritage. This overall approach to social performance also includes consulting and engaging with communities in a systematic manner, and providing benefits through community development projects (termed in the industry ‘social investment’ (SI)) or local content programmes. However, it is difficult to ascertain actual social performance across the industry in these areas, as there is a general lack of social indicators in company and project reporting, and when these do exist they tend to be ‘process’ rather than ‘outcome’ focused. For example, in terms of social data, IOCs only report on annual SI expenditure, which gives no indication of how effective these SI projects actually are, or how well they are managing their social impacts. Other than SI expenditure, the rest of social reporting tends to focus on case studies or processes, which do not necessarily give a good overall indication of the strength of social performance in the industry, or of actual outcomes. Although IOCs have clearly come a long way in their approach to managing social risk at the community level, a number of issues and trends are emerging that point towards implementation failures, as well as shortcomings in this social risk management framework of social impact mitigation and management, community consultation, and social investment.

SIAs, for example, are now commonly implemented by IOCs in early project development, as a tool to manage social risk as well as part of larger EIAs to gain local environmental permits. The underlying philosophy of SIAs is to minimize negative impacts and enhance positive impacts, through ongoing social impact management (Vanclay and Esteves 2011: 5). For example, in a typical oil and gas project, an SIA might seek to minimize potential community resettlement by moving planned project infrastructure to different areas, and maximize potential jobs available to local community members by advising the implementation of a local content policy. The social element of impact mitigation and planning was historically omitted from national permitting processes. However, in the last decade more countries have mandated SIA as part of the EIA permitting process (although the level of requirements on the social side still tends to be much lower than on the environmental side), and SIAs are mandated in most projects that seek international financing.

Nonetheless, the implementation of SIAs has been widely criticized by NGOs and communities as ineffective. One of the problems with SIAs is the lack of common methodology or criteria, creating a lack of consistency and often of quality, a view backed up by Bruce Harvey in his foreword to a book on emerging trends in SIA (Harvey 2011: xxx). Other issues range from a lack of information disclosure and consultation with impacted communities during the SIA process; a failure to adequately deal with cumulative impacts or positive impact enhancement measures; and regular omission of wider macroeconomic and institutional issues, such as the distribution of taxes and royalties (Harvey 2011; Vanclay and Esteves 2011). Ultimately, as Vanclay and Esteves argue, SIAs too often become box-ticking exercises, with little real analysis or integration of the SIA into cross-functional social management plans (Vanclay and Esteves 2011). Finally, SIAs in the oil and gas industry are usually only developed for new project developments, leaving many older operations—developed before SIAs became the norm—without adequate impact management procedures.

A related emerging issue is a common failure of oil and gas proponents to engage in meaningful consultation or proper information disclosure with impacted communities. On the one hand, consultation with communities is much more common and systematic in extractive projects now than in previous decades, when government arguments of ‘national interest’ prevailed and the exclusion of local communities from project decision-making processes was the norm (Harvey 2011: xxviii–xxix). Most IOCs have made public commitments to engage in an ongoing manner with impacted communities, through both formal and informal mechanisms; and the importance of consultation to gain a company ‘licence to operate’ is commonly accepted across the industry. Furthermore, there is a growing trend of governments developing legislation around community consultation, particularly in the cases of extractive projects (e.g., Bolivia’s Consultation and Participation law in the case of hydrocarbon projects), with which companies have to comply. The IFC Performance Standards and other international financing standards also stress the importance of community consultation in all project phases.

However, despite these advances, oil and gas companies frequently fail to consult properly with communities, and as a result consultation processes are often seen not to be meaningful (Wilson et al. 2016). It is clearly as a result of these failings that NGOs pushed for the promotion of ‘meaningful consultation’ throughout the draft Environmental and Social Standards in a recent review and update of the World Bank Safeguard Policies (Wilson et al. 2016: 9). The World Bank definition of ‘meaningful consultation’ stresses that consultation should take place early and throughout the project cycle, be inclusive and free from coercion, and provide timely disclosure of relevant and understandable information (Wilson et al. 2016). Similarly, it could be argued that the push from civil society organizations for companies to apply processes of ‘free, prior, informed consent’ (FPIC) to all communities, rather than just to the indigenous communities from whose rights FPIC derives, is another example of the increasing dissatisfaction with current practices of consultation in oil and gas projects.<sup>12</sup>

Finally, ongoing criticisms of company SI projects still prevail. This is not new, and various academics have written about the problems of company SI projects over the years (e.g., Frynas 2003; Frynas 2005; Hilson 2012; Utting and Ives 2006). The problems highlighted have ranged from the outright failure of SI projects, to their inadequacy to address truly sustainable development challenges, to SI projects creating tensions and conflicts within communities (Utting and Ives 2006: 20). Many authors have ultimately questioned whether companies should be engaging in community development projects at all (e.g., Hilson 2012). However, the fact remains that in middle- to lower-income countries, communities are often marginalized from an already weak public administration system. As a result, companies are usually expected to step into the gap and contribute to local community development. Not only is this widely expected by communities themselves, it is now increasingly becoming mandated by national governments in permitting requirements or production-sharing contracts (McNab et al. 2012).

Broadly speaking, over the last two decades, IOCs have gradually changed their approach to community SI, from ad hoc philanthropic donations to an approach that has sought to deliver better development impacts at the local level (Kunanayagam and Dietsche 2014; McNab et al. 2012). This approach involves developing partnerships with delivery-oriented NGOs or development organizations to implement projects (Kunanayagam and Dietsche 2014; Utting and Ives 2006: 20). One of the objectives of this newer approach for companies has been to use SI ‘to mitigate social risk, protect their corporate social licence to operate, and address growing societal expectations’ at the local community level (McNab et al. 2012: 2). However, one of the drawbacks

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<sup>12</sup> See e.g. Oxfam’s campaign for FPIC from all communities affected by extractive projects (Katz 2015). See also Tomlinson (2017, forthcoming) for an overview of the extractive industry’s approach to FPIC.

of this approach is that the industry has failed to deal with the social risks it faces through wider resource governance issues around poor macroeconomic performance and rent-seeking in many low- and middle-income countries (Kunanayagam and Dietsche 2014: 23–4). As a result, even the best thought-out SI projects actually often fail to meet growing societal expectations of benefits from oil and gas projects.

Although most IOCs have improved the transparency of their payments to governments and the management of bribery and corruption through membership of the Extractive Industries Transparency Initiative, as well as through compliance with legislation such as the UK 2010 Bribery Act, national regulations developed on the back of Chapter 10 of the EU Accounting Directive, and/or the US Foreign Corrupt Practices Act, increasing transparency is only the first step towards improving government accountability and public policies (Kunanayagam and Dietsche 2014: 24). Kunanayagam and Dietsche, amongst others, suggest that the way to address these problems is for companies to take a more strategic approach to SI based on four elements: an upfront macro and micro socio-economic and political analysis; a strategy to seek areas of investment ‘where public policies authorities are currently not sufficiently addressing the drivers of social risks and opportunities’; delivery of SI projects through ‘delivery-oriented development partners’; and implementation of pilot SI projects to test the ground for the potential to leverage and scale up these projects through collaboration with government and donor agencies (Kunanayagam and Dietsche 2014: 25). This type of ‘strategic SI’ is slowly being taken up by some IOCs, has more of a direct link with the business of oil and gas, and usually includes projects that aim to enhance local content through supplier or skills development initiatives. However, most IOCs have yet to fully grasp the overall strategic importance of this type of approach to SI, particularly for gaining not only the local community ‘licence to operate’ but also, in many low- to middle-income countries, the government and wider society ‘licence to operate’.

IOCs’ approach to social and environmental management has evolved over the last 20 years, leading to developing practice and improvements in performance. All IOCs today publicly claim to be managing social and environmental issues, and report on how they are doing this in practice through their annual sustainability reports. However, despite this overall improvement in performance, gaps in the implementation of standards and poor practices still continue in the industry. This section has broken down what social and environmental management means in practice, and has discussed some of the gaps and issues that are emerging. The next section looks at how social and environmental management in the oil and gas industry is often misunderstood, leading to a lack of understanding of the nature and drivers of social and environmental performance.

## **5 Moving beyond corporate social responsibility and common misunderstandings**

In academia, and among NGOs and policymakers, the extractive industries’ approach to dealing with the social and environmental aspects of corporate operations has generally been categorized under the umbrella term ‘corporate social responsibility’ (CSR) (e.g. Christian Aid 2004; Frynas 2005; Frynas 2010; Hilson 2012).<sup>13</sup> The overall idea of CSR is that companies should behave responsibly towards society and contribute to sustainable economic development, and that they can expect to achieve this by adhering to various voluntary standards (i.e. self-regulation). Over

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<sup>13</sup> It should be noted that there is no single agreed definition of CSR and the term is often used to describe a number of different approaches, from corporate philanthropy, to corporate partnerships in community development, to the broad management of social issues.

the years, there have been a number of academic articles and NGO reports outlining some of the problems of CSR in the oil and gas industry (e.g., Christian Aid 2004; Gilberthorpe and Banks 2012; Hilson 2012). By and large, the criticisms have been that although CSR programmes in companies have had some positive impacts, they are often little more than badly thought-out community development programmes with a corporate public relations aim, for an industry that is still having negative impacts on communities and the environment, and that is actively resisting any kind of regulation of its activities (e.g., Christian Aid 2004; Hilson 2012).

One of the problems around much of the writing on ‘CSR in the oil and gas industry’ is that not only are the drivers of CSR commonly misunderstood and misrepresented, but what the oil and gas industry is actually doing in terms of environmental and social management also does not fit with the concept of CSR. More often than not, CSR is conflated with community social development programmes, therefore omitting the important aspect of management of impacts. A recent World Bank study on the extractive industries sector, in which ‘social safeguards’ in the extractive industries are equated with sharing the benefits of projects at the local level through community development funds, is a case in point (Halland et al. 2015: 82). As discussed in this paper, corporate contributions to community development (or social investment) are but one aspect of social performance in the oil and gas industry.

Another common misunderstanding is that the term CSR has come to be equated with ‘voluntary’ self-regulation, as opposed to formal regulation. One of the main criticisms of CSR is that since it is a voluntary approach, companies cannot be penalized for poor or absent implementation. In fact, some NGOs have even critiqued CSR’s entire *raison d’être* as a corporate-led approach ‘to promote self-regulation as a substitute for regulation at either national or international level’ (Christian Aid 2004: 5). According to some authors, this situation is compounded in developing countries where ‘the drive to legislate and enforce regulations is lacking’, as opposed to the situation in developed countries (Hilson 2012: 136).

However, this is not an accurate overall depiction of the field of social and environmental management in the oil and gas industry. Although some companies in certain instances have no doubt lobbied against certain pieces of environmental or social legislation (such as corporate lobbying against the US Alien Tort Claims Act), the drivers of social and environmental performance in the industry are often not entirely voluntary. For example, there is a growing body of national legislation around community consultation and mandated company social investment in Latin America and Africa (see, for example, Otto 2017, forthcoming), and companies are increasingly having to comply with national legislation around environmental and social issues, as well as with international standards to access financing. Furthermore, increasing community expectations and pressure are also pushing companies to manage these issues from a risk perspective, in order to gain their ‘social licence to operate’. Therefore, the simple dichotomy between voluntary self-regulation and mandated regulation is not in fact an adequate way to understand the complexities of the field of social and environmental management in the industry.

One of the main aims of this paper has been to give an overview of how oil and gas companies are actually approaching and implementing social and environmental performance across their operations. It is only by unpacking and ultimately discarding terms such as CSR, and by truly examining what oil and gas companies are actually doing in social and environmental management, that one can begin to answer the question of whether and how companies can generate positive and sustainable economic and social outcomes for local populations, or perhaps more importantly—considering the state of performance across the industry—why they are failing to do so in many instances.

While implementing strong social and environmental performance can be challenging and complex, the tools for implementation are there, and are well articulated for the industry. For environmental performance, this involves implementing environmental impact assessments and management plans, and ultimately minimizing and avoiding the well-known environmental impacts of oil and gas operations around air emissions, oil spills, water discharges, and water consumption. For social performance, these involve implementing SIAs and social management plans, engaging in a meaningful manner with stakeholders, and implementing strategic investment projects that address both macro and micro socio-economic issues in partnership with government, donor, or NGO parties. To successfully implement these tools and achieve good social and environmental performance, a company needs strong and engaged leadership, qualified and experienced professionals to implement the work programmes, mandatory standards, well-designed management systems, and a clear assurance process to drive performance across the company.

The question therefore remains: why is performance still so uneven, both across IOCs and within individual companies? Part of the answer may lie in the challenges of driving good performance across a large multinational company and poorly developed internal management processes. While most IOCs have environmental management systems that are usually quite clearly articulated, social management systems and standards can be a little vague, and often are not performance-based. This potentially leaves different arms of a company with too much autonomy to implement social performance according to their own interpretations, with only limited checks possible from any assurance framework. However, despite gaps in management frameworks, poor environmental and social performance often ultimately comes down to senior leadership.

Although social and environmental management in the oil and gas industry is now largely about risk management and legal compliance, the manner in which a company approaches this is fundamentally down to leadership and culture. It is no surprise that one of the main reasons that BP and Shell took a proactive approach to social and environmental issues, at a time when most other IOCs were not doing so, was largely due to internal leadership. It is also widely known that when these engaged leaders stepped down, the emphasis on social and environmental performance changed (see e.g., Bader 2014; Morrison 2014: 7). The presence of strong social and environmental performance in a company is almost always because the person put in charge of these areas has been given a clear mandate by, and has a direct link to, the CEO and/or the board. Unfortunately, industry leadership on these issues today is uneven, and too often IOCs are seen to be taking a legalistic or public relations approach to solving complex social and environmental conflicts. Chevron's approach to the Texaco oil pollution lawsuit in Ecuador is a telling example. It is interesting that in Daniel Franks's account of the formation of the CEO-led GMI and the subsequent MMSD project in the late 1990s, he recounts that initially the CEOs of the different mining companies present were broadly split into two camps: those that thought that the solution to the growing anti-mining movement was to 'sell' a better message (i.e. better public relations), and those who thought that the problems were more fundamental, and that systematic poor social and environmental performance in the industry had to be addressed (Franks 2015: 8). This same tension—between selling a better message and actually addressing poor performance and taking a more sustainably driven strategic approach—remains an ongoing and unresolved issue in the oil and gas industry today.

## **6 Conclusion**

This paper has sought to give an overview of social and environmental management in the oil and gas industry. It has outlined the evolution of IOCs' approaches over the last 20 years, and has

reviewed what social and environmental management amongst IOCs means in practice, and what some of the emerging issues are today. The paper has argued that much of the academic writing looking at social and environmental performance in the oil and gas industry uses the outdated concept of CSR. This is a concept that is no longer widely used by social and environmental practitioners in the industry, and one that also leads to misunderstandings of what social and environmental management actually consists of, and of what the drivers behind its application are. The complexity and variety of these drivers—ranging from compliance with international standards to the need to access financing, to local legislation, the risks of the trend of developing local legislation, reputational issues, and gaining a ‘social licence to operate’—is the reason why the portrayal of social and environmental management in the industry as a ‘voluntary’ approach is somewhat inaccurate and misleading. While it is clear that the manner in which a company chooses to approach social and environmental management remains at least partly voluntary and is usually dependent on leadership and culture, no oil and gas company today can operate without addressing these issues to a certain level. This is particularly compounded by the growing national trend to develop social and environmental legislation related to extractives. As a result, oil and gas companies increasingly have to balance international standards, local legislation, and growing community expectations. It is precisely because of this reality that companies need durably strong internal policies and management systems, as well as adequate human and financial resources to manage these challenges.

The paper also describes how, despite a certain variety of approaches between IOCs in addressing social and environmental issues, the broad trend across the industry is to approach these issues through a risk management approach, broadly modelled on international standards such as the IFC Performance Standards and the VPs. Overall, this risk management approach entails an underlying philosophy of ‘do no harm’ and ‘provide local development benefits’. However, although IOCs have clearly evolved their approaches and performance in relation to social and environmental impacts and issues, actual performance is still uneven across the industry, with many instances of unmitigated social and environmental impacts, and a lack of sustainable development benefits for many local communities affected by oil and gas projects. While some of this poor performance comes from the challenges and complexities of implementing good social and environmental performance and driving standards throughout a large company, the usual root cause of poor performance lies in a lack of senior leadership engagement on these issues, leading to companies that either avoid international best practice in social and environmental performance, take unnecessary risks to increase profits, or lack the internal capacity to implement standards and approaches.

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