Socio-environmental sustainability in Latin America and the Caribbean - Present situation and expectations of the oil and gas industry and of its stakeholders

REGIONAL ASSOCIATION OF OIL, GAS AND BIOFUELS SECTOR COMPANIES IN LATIN AMERICA AND THE CARIBBEAN

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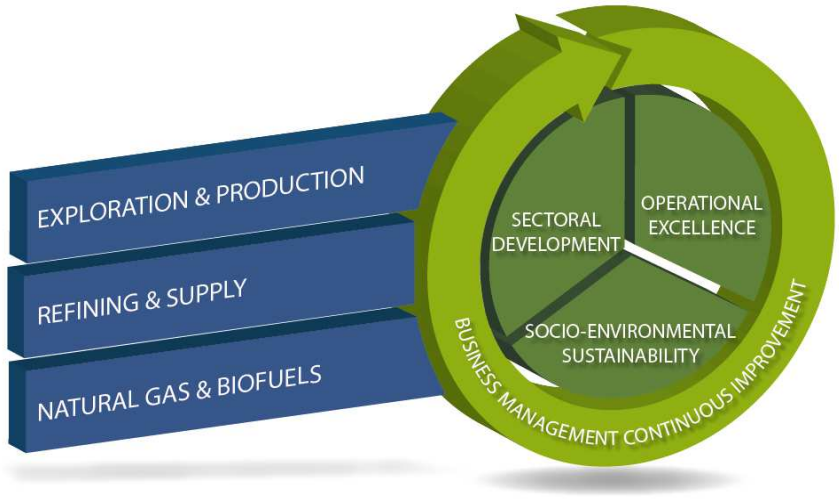
1. Introduction

The oil and gas industry considers the socio-environmental sustainability associated to its operations -and the risks involved- as a strategic aspect of its management.

All companies and institutions of the value chain are increasingly aware of their shared responsibility in the sustainable development of the Region and in the potential impacts on society and the environment.

In this context, oil and gas companies have embarked in a variety of programs to promote the development of a corporate culture with a higher dose of socio-environmental awareness and responsibility and of leadership abilities. This, in order to ensure, not only the integration of all sustainability aspects during the companies' strategic planning and operational management, but also an excellent performance.

The main purpose of ARPEL is to promote and facilitate industry integration and growth, the continuous improvement of its operations, and an effective management of the social and environmental issues and challenges, while ensuring that companies maximize their contribution to the sustainable energy development of the Latin American and the Caribbean region.



ARPEL – Strategic Focus Areas

In order to attain its goals, ARPEL periodically evaluates the needs and priorities of the industry in the region in its different strategic focus areas. In July 2012, the Association carried out two surveys on socio-environmental sustainability; one aimed at the industry and the other one to its main stakeholders in the Region.

The first survey, aimed at industry helped to identify the priorities in the socio-environmental sustainability management in the oil and gas industry as well as the patterns, trends, consistencies and differences among the companies that operate in the region in relation to present and future issues, to its performance and motivations. The answers collected were useful to map socio-environmental sustainability challenges and opportunities in the oil and gas industry.

The second survey, aimed at stakeholders helped to inform ARPEL and regional industry players on the opportunities, perceptions on the industry performance and the stakeholders' expectations in relation to the sector.

From the **combined analysis of both surveys**, ARPEL and its companies will be able to identify opportunities to improve its sustainability initiatives focus.

This report reflects a preliminary analysis and does not address any prioritization of different industry segments (e.g., international, integrated, etc.) or by different types of stakeholders (e.g., business or civil associations, intergovernmental organizations, etc.).

ARPEL manages the subject of socio-environmental sustainability mainly through three technical committees composed of professionals of its member companies: 1. Social Responsibility Committee, 2. Environment, Health and Safety Committee, and 3. Climate Change and Energy Efficiency Committee. The authorities of those committees make up the ARPEL Sustainability Advisory Group. This group considers the opportunities of dealing with the cross-cutting nature of socio-environmental issues in ARPEL and will use this preliminary analysis report as a starting point to identify specific work and development areas in ARPEL in the next years.

2. Survey participants

The following companies or organizations answered ARPEL survey:

Oil and gas companies	Technology and services suppliers	Stakeholders
1. Ancap 2. Ecopetrol 3. Esso Argentina 4. Hocol 5. PCJ 6. Maersk Oil 7. Pemex 8. Petrobras 9. Petroperu 10. Petrotrin 11. Pluspetrol 12. Recope 13. Repsol 14. Staatsolie 15. Statoil	1. Schlumberger 2. Weatherford 3. Baker Hughes	1. ABS Consulting – Latin America 2. International Development Bank 3. Economic Commission for Latin America 4. Coordinator of Indigenous Organizations of the Amazon Basin 5. Comunicarte - Brazil 6. Centre for Business and Public Sector Ethics 7. IHS 8. Regional Centre for Latin America and the Caribbean for the support of the United Nations Global Compact 9. Oil, Chemistry and Related workers union in Costa Rica 10. World Petroleum Council 11. World Energy Council - Latin America and the Caribbean

3. Industry

3.1 Present sustainability issues - Industry

Figure 1 classifies the Current Level of Importance given by the industry to many socio-environmental sustainability management issues in its operations in Latin America and the Caribbean, as well as the Current Level of Capacity to deal with those issues.

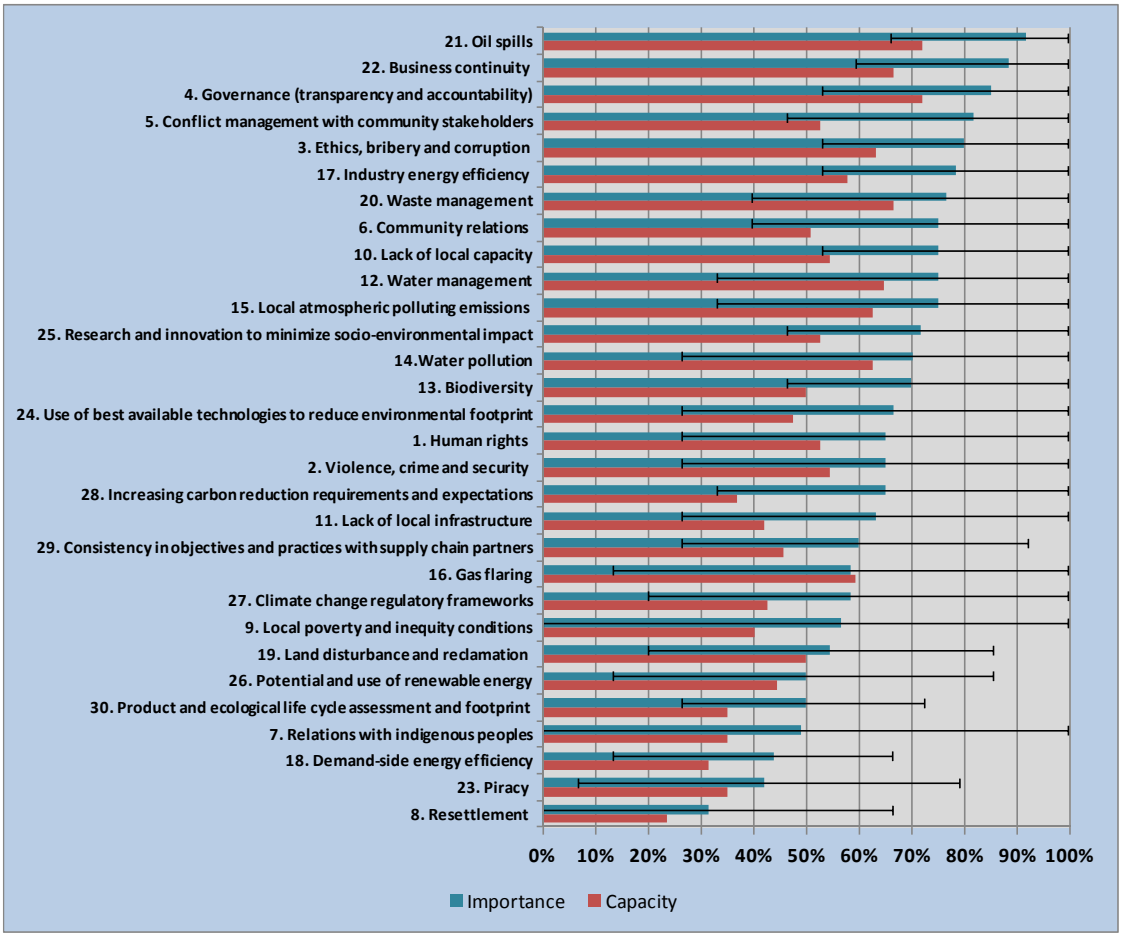
An interesting combination of social and environmental issues can be identified within those most important to industry sustainability, as well as a differentiation amongst them. A lower Capacity associated to the Importance could indicate the need for training or improved management to address those issues, as well as a perception of the lack of integration of sustainability management in the overall business strategy.

Figure 1 also highlights the range of Importance assigned by companies responding the survey. It is worth noting the wide range that exists in -for example- the issue of relations with indigenous peoples (from 0% to 100%). This is due to the fact that there are companies operating in areas where no indigenous communities dwell (0%) while others deem this issue as of key relevance for their sustainability (100%).

Something similar happens with gas flaring, which varies between 12% and 100%; something that may be related to the portion of the value chain in which the companies operate, being this issue more critical for companies with upstream operations and/or with operations in countries where regulations are imminent than in companies that only have downstream operations. The fact that this is the only issue in which Capacity is above Importance may confirm this statement.

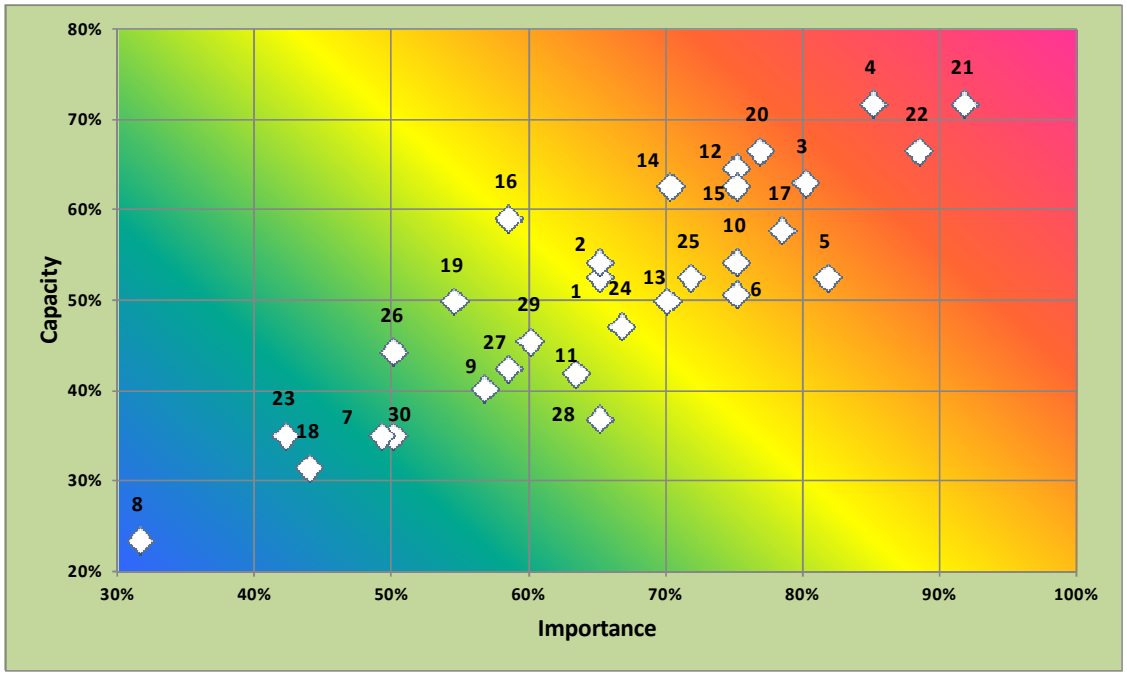
Figure 2 describes the gap between the important socio-environmental sustainability issues and the management capacity that the industry currently claims to have to deal with those issues. The selection of more Important issues in which there is less Capacity, allows to identify possible focus areas on sustainability strategies that could be carried out – for the benefit of the industry- in a collaborative environment as the one of ARPEL.

Figure 1: Socio-environmental sustainability issues – Importance and current industry capacity[1]



[1] Ranges indicated in the figure show the average of the organizations that ranked with highest/lowest values a certain item. In the case of industry, the highest 5 and the lowest 5 organizations were considered.

Figure 2: ***Relation between the importance and capacity of present socio-environmental issues*** *(Note: the numbers of the issues correspond to the ones in Figure 1)*



3.2 Future sustainability issues

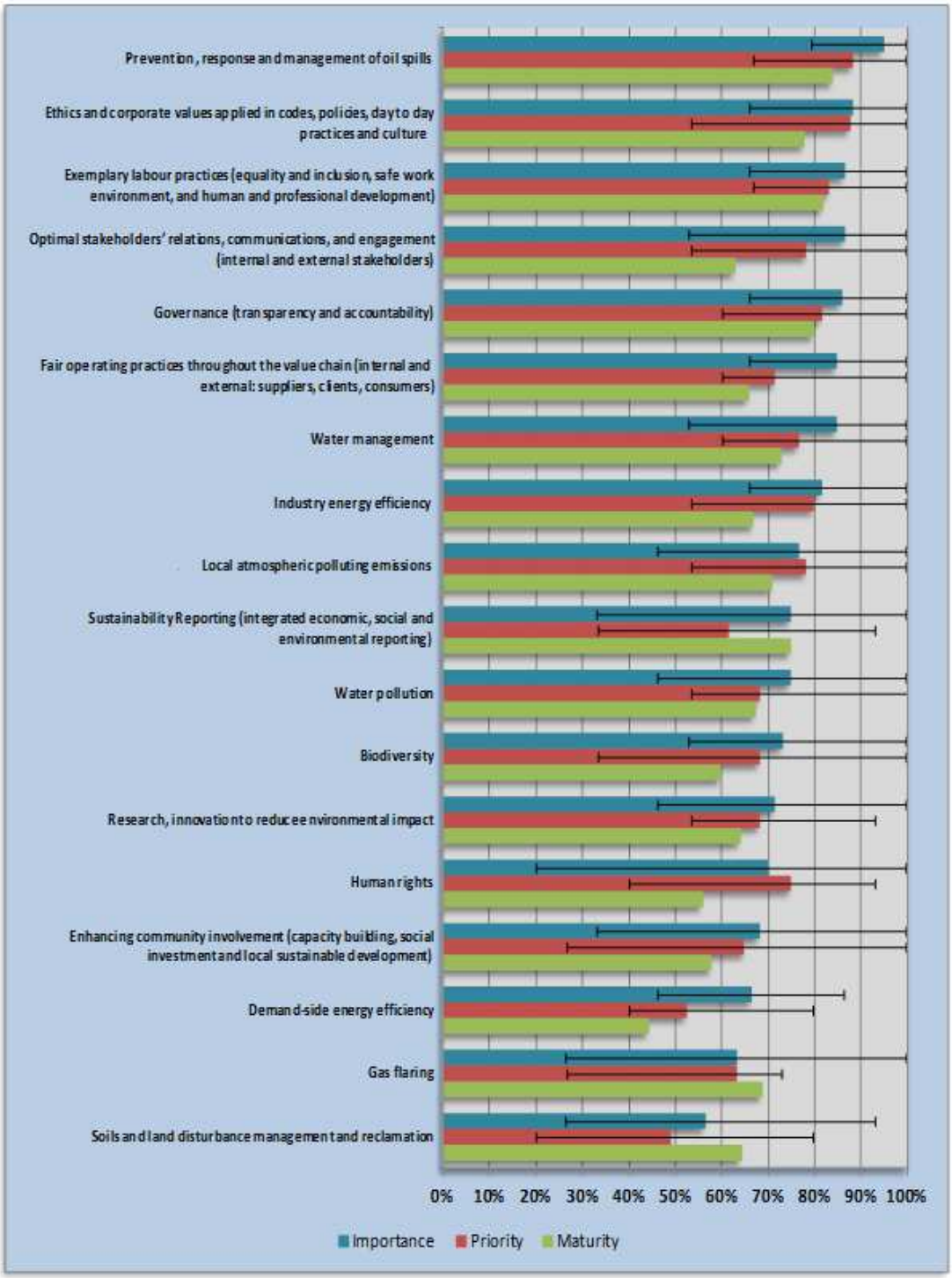
3.2.1 Importance, commitments, leadership and performance

The selection of socio-environmental sustainability issues in which companies wish to position themselves as leaders is an integral part of their strategic plans. Besides the identification of challenges and opportunities of issues in the future (Importance), there is the strategy that companies decide to take as regards commitment and leadership in such socio-environmental sustainability issues (Priority). The commitment and leadership should go together with the implementation of policies, systems, processes and practices that guarantee an adequate performance (Maturity) in the management of those issues.

This combination of factors is summed up in Figure 3 in which the Importance, Priority and Maturity of selected socio-environmental sustainability issues during the next 5 years is established, according to the following definition:

- Importance: industry perception on the relative importance that the issues will have on the elaboration of the global business strategy,
- Priority: level of the company's commitment and leadership for the strategic management in terms of socio-environmental sustainability, and
- Maturity: the management level that the company plans to attain in 5 years, ranging from a minimum of "There are no implementation plans" to a maximum of "Total implementation with measurable and comparable results with continuous improvement"

Figure 3: Importance, Priority and Maturity of socio-environmental issues in the next 5 years[2]



[2] Idem footnote 1.

From Figure 3 we can distinguish the correlation between Importance and the willingness of companies to be seen as leaders in certain sustainability areas (Priority), which will entail efforts to implement management processes and mechanisms that allow for the incorporation of those issues in the overall management of the company (Maturity).

The largest dispersion on Importance is on issues such as human rights, gas flaring, soils management and sustainability reporting. Once again, this would deserve the segmentation of the companies that responded the survey.

It can also be appreciated the wide range of commitment and leadership that companies have in the strategic management of the issues (Priority). Companies assigning high Priorities to certain issues demonstrate the focus of their efforts to gain a competitive advantage in socio-environmental sustainability management, and -thus- in the overall business. A limited range of Priority associated to a large Importance would allow to conclude that companies could work collaboratively (e.g., through ARPEL) with great proactivity both in their internal management and in association with stakeholders having similar priorities and objectives associated to the management of said issues.

3.2.2 Where do we start from?

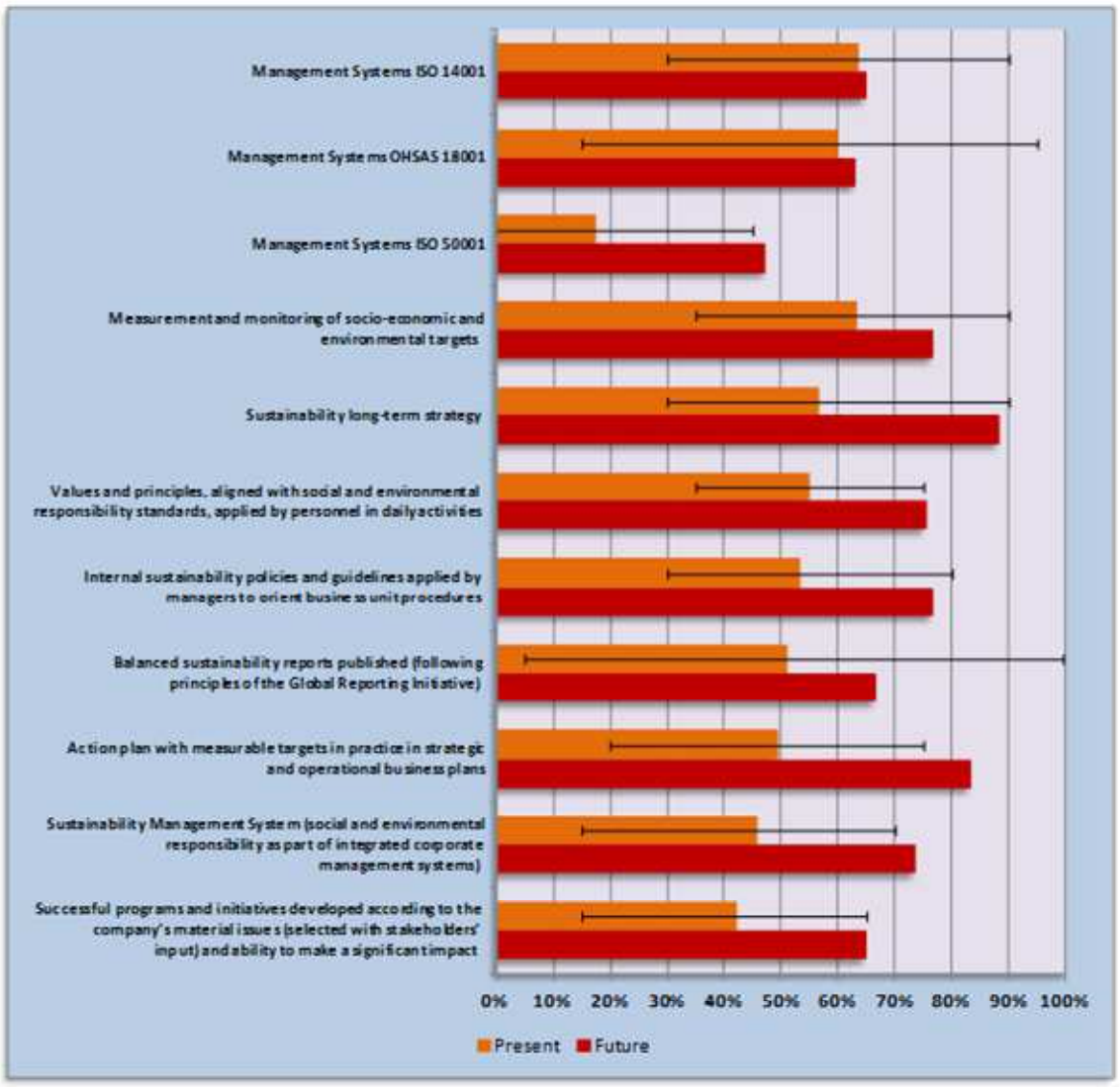
Socio-environmental sustainability management should be based on initiatives, actions and processes that are already developed or being developed which contribute to achieve the goals established by companies themselves.

Figure 4 describes de present level of implementation and the priorities for the next 5 years, from good sustainability practices to handle the main socio-environmental issues ranging from a minimum of "There are no implementation plans" to a maximum of "Total implementation with measurable and comparable results with continuous improvement". The diversity of approaches and baselines – linked with the objective of a greater level of implementation of good practices – allows identifying opportunities for the exchange of knowledge and experiences among ARPEL companies.

Besides, the survey also allowed identifying an increase of the companies´ objectives in relation to the compliance and the implementation of international sustainability standards or of components related to sustainability in larger standards (e.g., ISO 26000, GRI, Global Compact, etc.)[3].

[3] This information does not derive from Figure 4 but from a separate question made in the survey

Figure 4: Present and future implementation of best practices in sustainability[4]



[4] Idem footnote 1

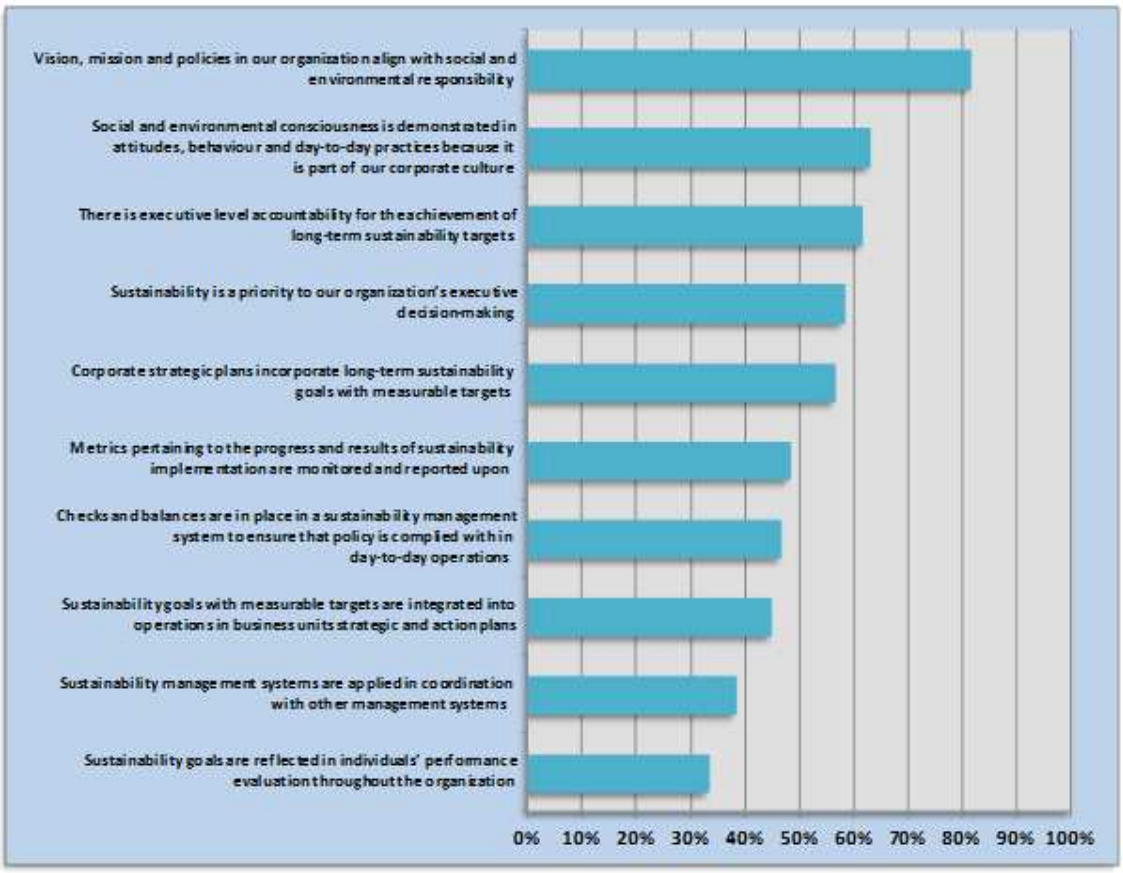
3.3 Responsibility and leadership

The responsibility of planning and attaining the goals and objectives related to social and environmental sustainability in companies is distributed among the different scales of the organization chart as well as among the different functional areas:

- 75% of those surveyed stated that it is the managers´ responsibility (maximum) faced with 55% of companies that hold their first-line managers responsible.
- On the other hand, the functional areas that are more responsible for attaining the established goals are the environmental ones (75%) and the community relations ones (65%). This percentage is reduced to 55% for the corporate social responsibility and strategic planning areas, the next two areas in responsibility.

The survey intended to make an approach to assess the essential leadership aspects as regards sustainability. For that purposes, companies were asked to classify the level in which certain affirmations reflected their commitment and their practices for implementing an effective and well-managed socio-environmental sustainability strategy. Results are shown in Figure 5.

Figure 5: Commitment for the implementation of a sustainability strategy



3.4 Challenges and Opportunities

The survey requested companies to show the main challenges and opportunities that they will face in the next 10 years to progress in socio-environmental sustainability. The diversity of answers does not allow making a quantitative classification; however, there are some factors in common that were described differently by a high percentage of those surveyed and that are summarized in the following tables.

CHALLENGES	
To lay the foundations of leadership and corporate culture for which we need to…	***To improve the relation with stakeholders***, for which we need to…
• develop solid corporate structures, • include socio-environmental concepts in the decisions of the whole organization, • change the corporate culture, • have an effective appreciation– from the market- of sustainable initiatives to motivate the upper management to implement them, • solve conflicts of priorities in the creation of value in the short and in the long term, • have indicators of tangibility of results, • implement socio-environmental sustainability processes, from corporate orientations to performance monitoring, including communication with stakeholders, • upper management provides human talent and financial resources to support initiatives, • reassert sustainability in the company strategy, and • develop, communicate and understand the business case for the effective implementation of socio-environmental sustainability.	• strengthen public participation mechanisms, • make sure that companies understand the society's concerns, • that governments progress in their sustainability agendas providing an adequate framework that values the companies´ commitment to be leaders in the subject, • better communication of the benefit that the industry operations represent for society, • understand and systematize stakeholders´ concerns to be included in the companies´ strategies and, in this way, to be able to achieve the expected benefits, • know how to manage conflicts with communities, • a better dialogue with government.

OPPORTUNITIES	
Improve community relations:	***Innovate to obtain competitive advantages:***
• guaranteeing socio-environmental viability in influence areas (social and environmental license), • working with socio-economic sustainability creating shared value, reducing risk due to vulnerability in communities and ecosystems, • working together with other stakeholders, • having clear operation standards, and • making a balance of the optimum technical operations in accordance with socio-environmental issues.	• through research and development in less contaminating technologies that may simultaneously add business value, • articulating with national and international strategies and programs, • carrying out strategic alliances with governments, NGOs and universities, • reducing costs through eco-efficiency programs, and • attracting human talent through the diversification of the energy portfolio.

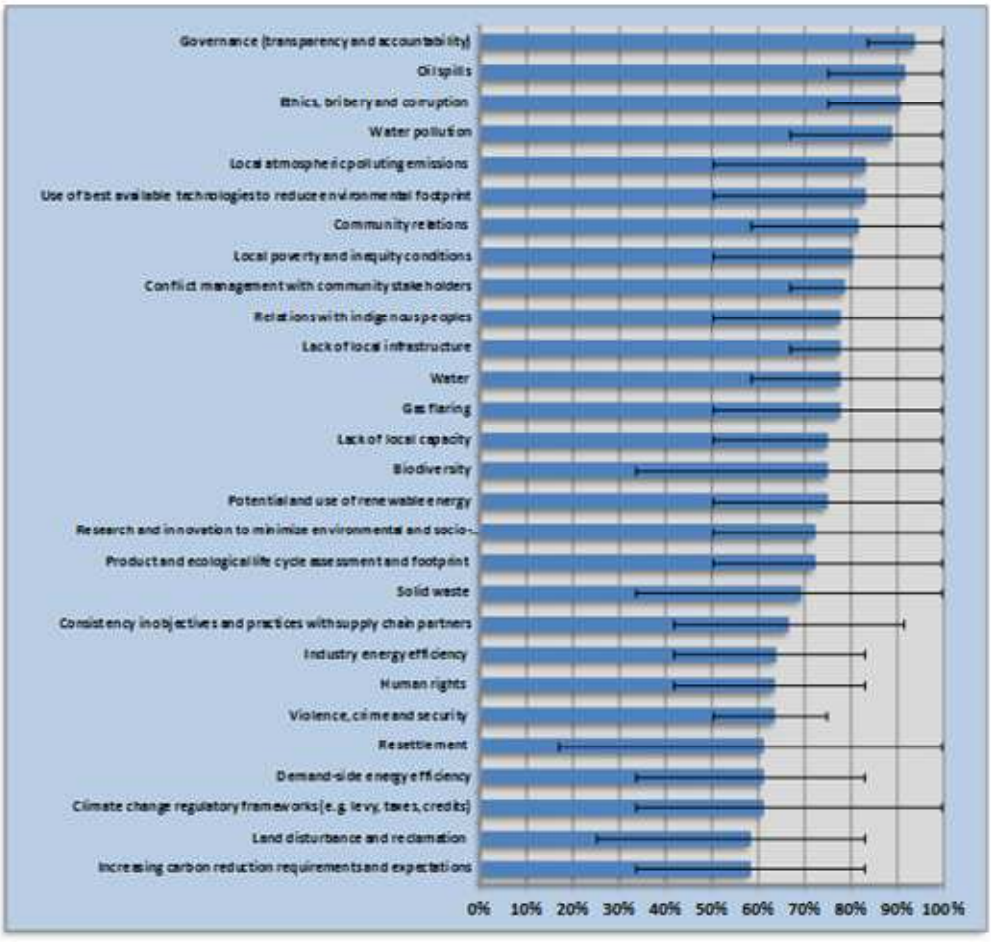
4. Stakeholders

4.1 Present sustainability issues - Stakeholders

Figure 6 classifies the Current Level of Importance that the stakeholders that responded the survey consider that some socio-environmental sustainability issues should have for the oil and gas industry in Latin America and the Caribbean.

All answers fall between 58% and 94%. It could be said that the collective opinion of stakeholders surveyed deem all issues as important or very important and that environmental issues (spills, water pollution and atmospheric emissions) lead the ranking together with governance and ethics.

Figure 6: Current importance of socio-environmental sustainability issues according to stakeholders[5]



[5] Ranges indicated in the figure show the average of the organizations that ranked with highest/lowest values a certain item. In the case of stakeholders, due to lower number of responses, the highest 4 and the lowest 4 organizations were considered.

In this question, the survey also requested to indicate the 5 most important socio-environmental issues, among the 28 prioritised. By doing so an attempt to differentiate the priorities was made. The analysis of the results indicates that the following issues were pointed out among the 5 most important:

- Local poverty and inequity conditions (6 times)
- Governance (transparency and accountability) (5 times)
- Oil spills and ethics/bribery/corruption (4 times each)
- Relations with indigenous peoples, water, industry energy efficiency and violence/security (3 times each)

This classification does not aim at replacing the prioritisation indicated in Figure 6 which arises from the average of the responses but rather provide complementary elements in the detailed evaluation of the survey.

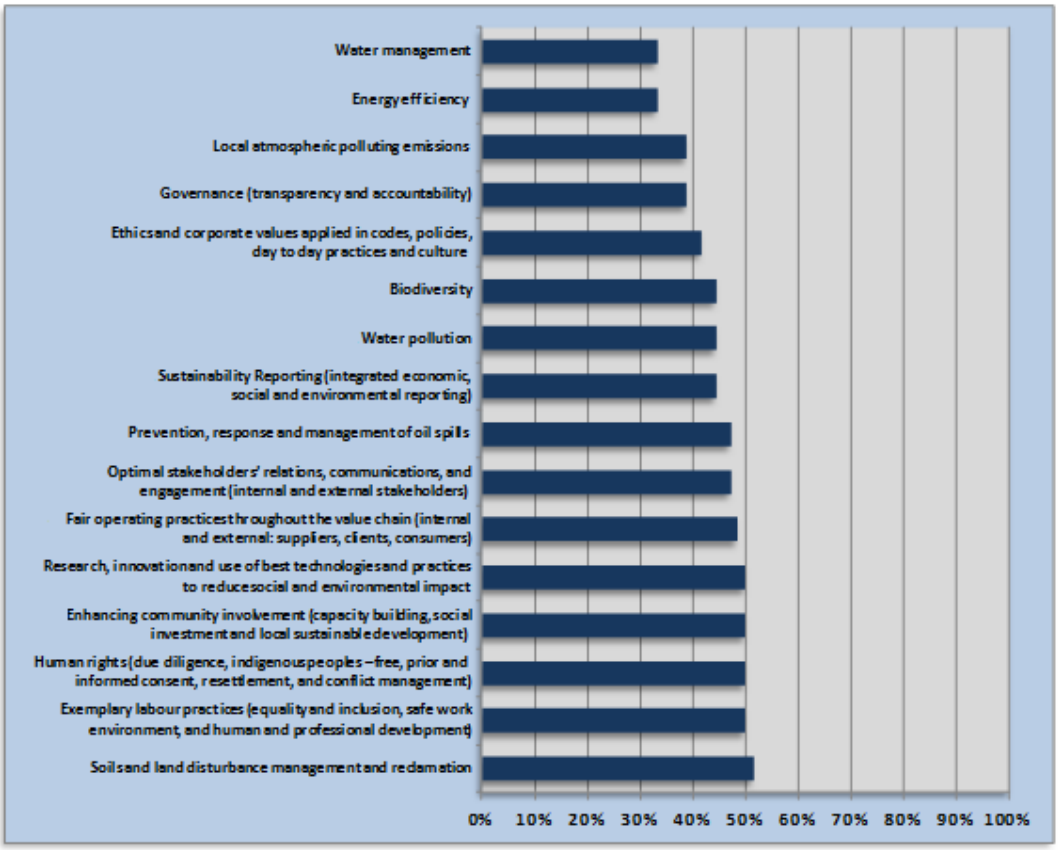
4.2 Perception of the industry performance

Figure 7 describes the perception of those stakeholders that responded the survey as regards the industry performance in selected socio-environmental sustainability issues. In general, the perception of stakeholders is that the industry performance is between poor and moderate in most key socio-environmental sustainability issues.

The perception of industry performance regarding water management and energy efficiency is notoriously low. Stakeholders perceive industry as doing half of what they could do regarding soil management (best score) and in other issues appearing in the lower part of Figure 7.

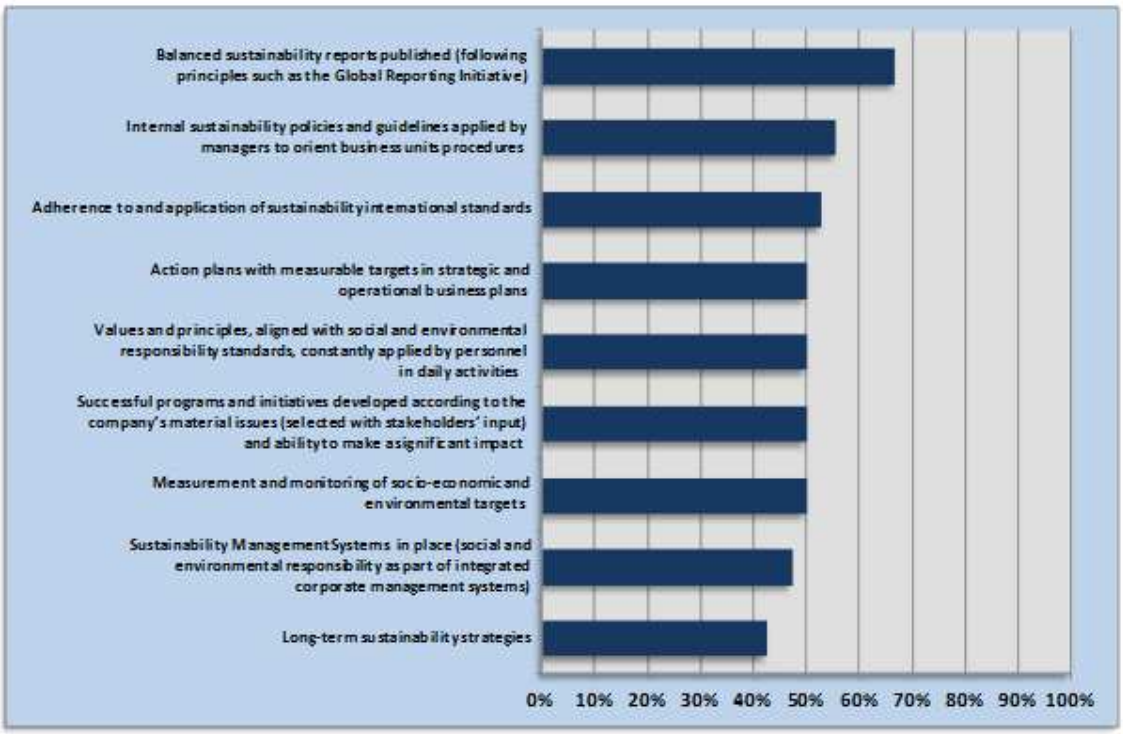
This critical perception deserves a careful analysis by industry, both with regards its socio-environmental sustainability management and performance and its communications with its stakeholders.

Figure 7 : Current industry performance according to stakeholders



This perception is connected with the question *"To what point do you think the oil and gas industry in Latin America and the Caribbean is implementing each of the following best practices to plan and manage socio-environmental issues?"* and which results are shown in Figure 8.

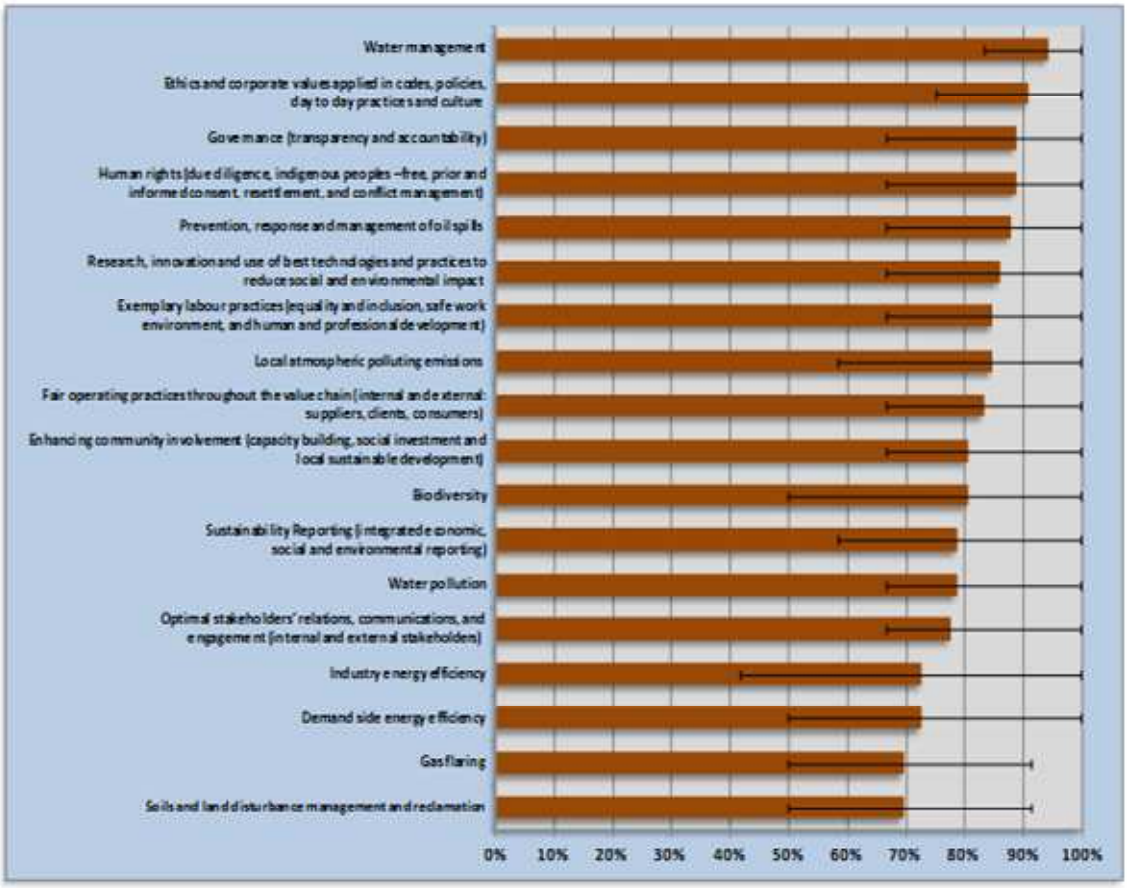
Figure 8: Perception of stakeholders on the implementation of best practices in socio-environmental sustainability



4.3 Recommendations of industry stakeholders for the next 5 years

Stakeholders that responded the survey hope that in the next 5 years the industry concentrates on the socio-environmental issues described and prioritized in Figure 9. In this case, the priorities' differentiation is even smaller than in Figure 6; priorities assigned by the stakeholders for industry to work in the next 5 years vary between 70% and 95%.

Figure 9: Priorities of stakeholders to be considered by the industry for the next 5 years[6]



As indicated in chapter 4.1, in this question, the survey also requested to indicate the 5 most important socio-environmental issues described in Figure 9. By doing so an attempt to differentiate the priorities was made. The analysis of the results indicates that the following issues were pointed out among the 5 most important:

- Governance (transparency and accountability) (6 times)
- Ethics and human rights (5 times each)
- Innovation/technologies to reduce socio-environmental impact and exemplary labour practices (4 times each)
- Value chain and improved community participation (3 times each)

Once again, this classification aims at providing complementary elements -in this case to the prioritisation indicated in Figure 9- for the detailed evaluation of the survey.

[6] Idem footnote 5.

5. Divergences and convergences – Opportunities for a sustainable development

This section is intended to identify the divergences and convergences between the present and future priorities of the industry and the expectations of stakeholders in socio-environmental issues. With the understanding that stakeholders may contribute to promote an improvement of the socio-environmental sustainability performance in the oil and gas industry in Latin America and the Caribbean, this analysis will allow to identify synergies for a collaborative work between the sector and its stakeholders with the view of the ultimate aim of a sustainable development in the Region.

With the analysis of Figures 10 and 11, the industry will be able to compare the importance given at present and in the next 5 years to socio-environmental sustainability issues, in contrast to the expectations of its stakeholders. From this analysis, the industry will be able to define strategies to align the socio-environmental sustainability management with the global business management, considering the important relation with the influence of its stakeholders.

Looking at the bi-pyramids scale of figures 10 and 11, it is observed that the relative level of the present divergences is obviously higher than the differences between the priorities of the industry and the recommendations of its stakeholders in 5 years. However, it is worth recalling the importance granted to socio-environmental sustainability issues by respondent stakeholders has been high and “flat”. This could indicate that the future convergence determines a future prioritization of industry based on its present resources.

On the other hand, at present in the band of the 30% most important socio-environmental sustainability issues, there are 5 issues of common interest to industry and stakeholders: (a) governance, (b) oil spills (c) ethics, bribery and corruption, (d) relations with communities and (e) conflict management, that allow for industry to identify synergies with its key stakeholders to support the Region’s sustainable development.

Figure 10: Gap of the PRESENT importance of socio-environmental sustainability issues given by the industry and its stakeholders

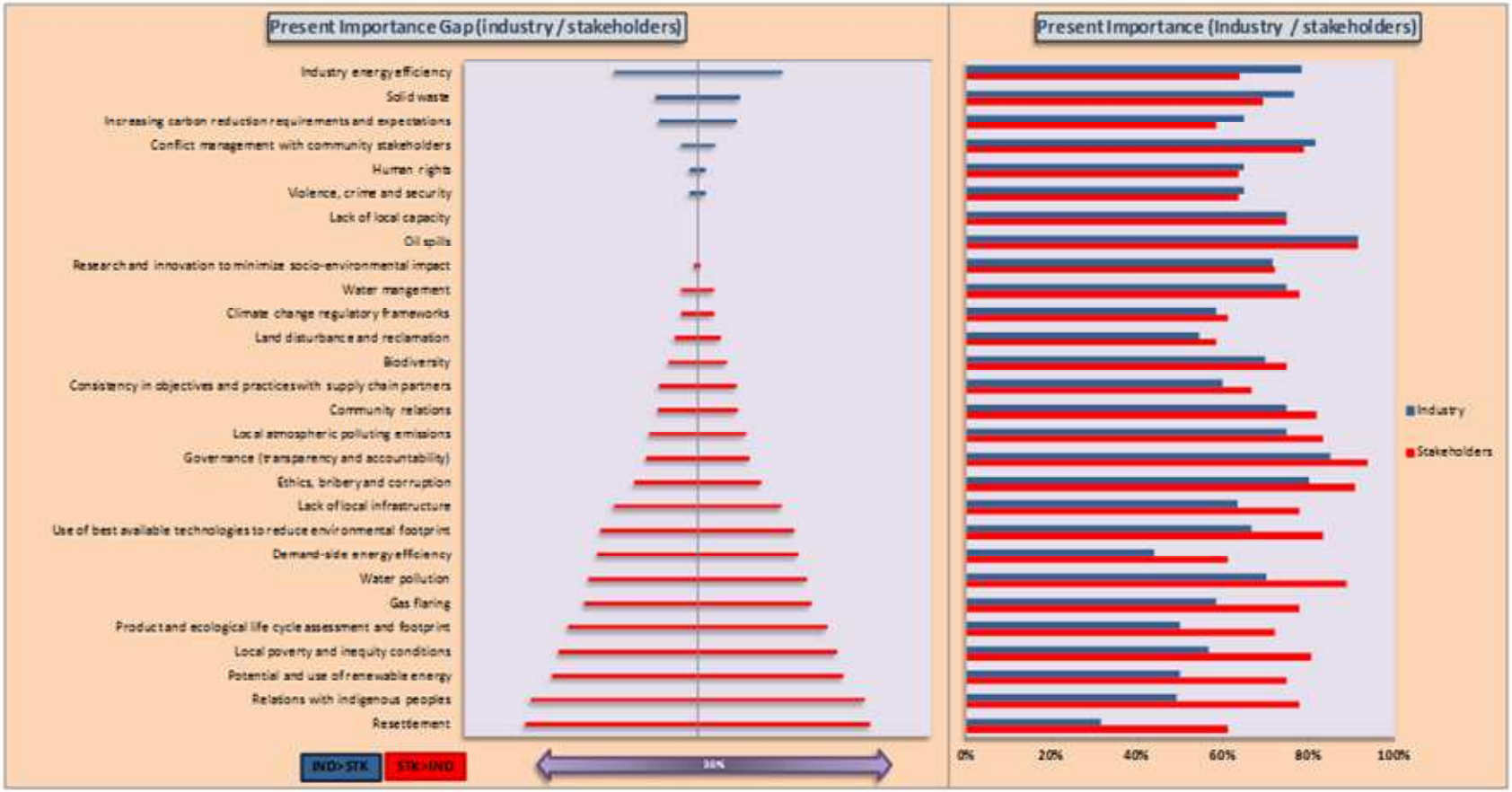
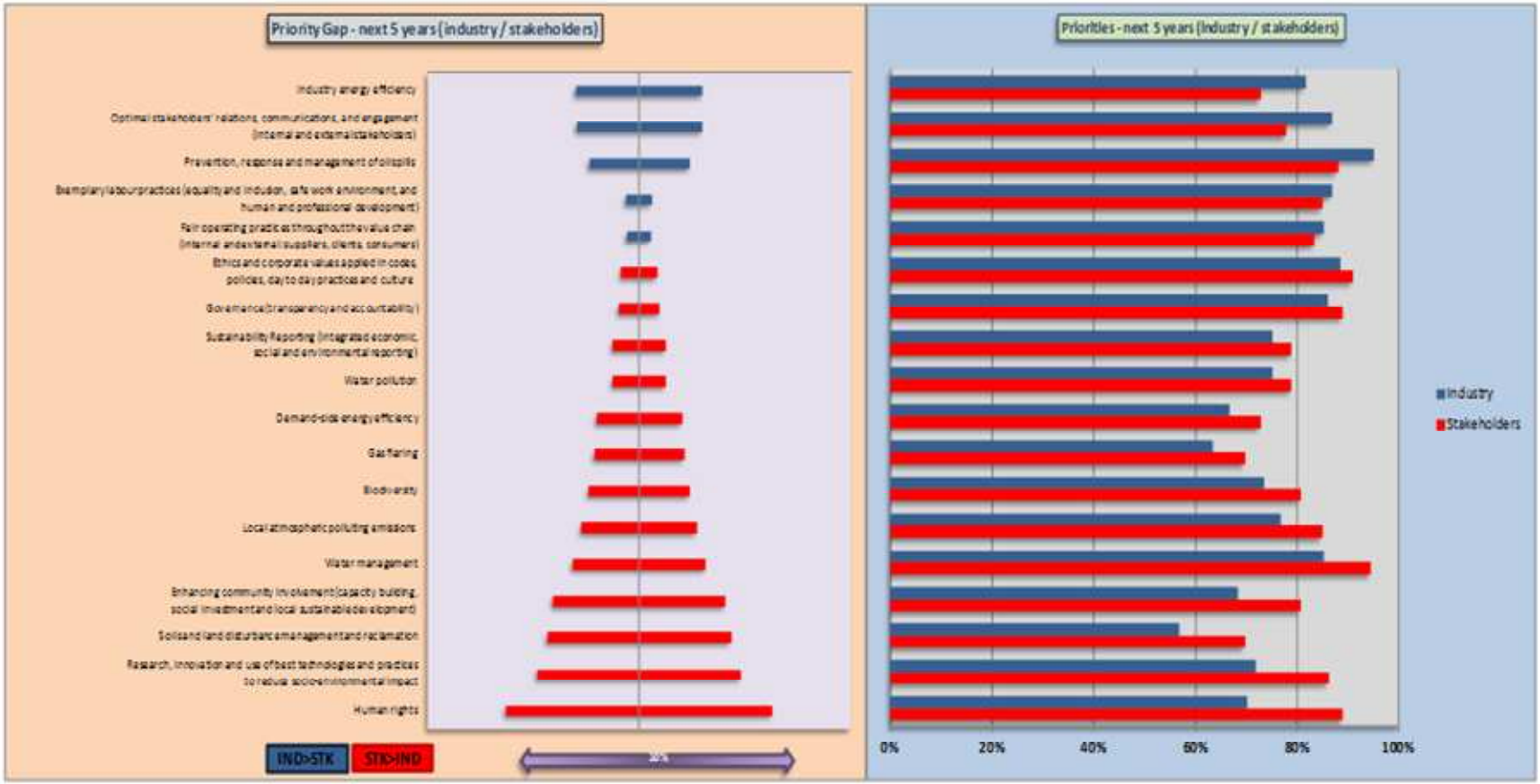


Figure 11: Gap of the industry priorities and the stakeholders´ recommendations in socio-environmental sustainability issues IN THE NEXT 5 YEARS



6. Final reflections

The main conclusions of this report are based on a global vision of those companies and stakeholders that responded the survey. A more detailed analysis will allow segmenting the priorities of the different industry players and of its stakeholders. Segmentation factors could include aspects such as the type of operation (upstream/downstream) and the location of companies or the main objectives of the different stakeholders.

The overall analysis could be misinterpreted by companies or specific stakeholders who do not see their priorities or opinions reflected on the consolidated results. The intention of this report is not to alter such specific priorities, but to provide guidance on socio-environmental sustainability issues that – altogether- allow all players to work collaboratively for the sustainable development of the Region.

An interesting feature of this survey is the approach to the assessment of leadership aspects that determine the levels of industry commitment to advance towards the incorporation of socio-environmental sustainability issues in the overall business management (Figure 3). ARPEL will evaluate these results more in detail and explore the options of a collaborative work to advance towards superior stances of organizational leadership and culture regarding socio-environmental sustainability in the companies of the Region.

The ARPEL Sustainability Advisory Group will use this report as a basis for orienting –in the next 5 years- ARPEL member companies towards the Association's objective of maximizing its contribution to sustainable energy development in the Region together with the multiple industry stakeholders.

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