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Extracting the Bank from the Extractives
By Leif Brottem

Opaque financial transactions in the oil industry recently made headlines again when Global Witness, a UK-based NGO, revealed that nearly a third of Angola's state revenue in 2001 -up to US$1.4 billion- is unaccounted for. According to the Washington Post, a few companies such as British Petroleum are increasing the transparency of their Angola operations. Others such as ChevronTexaco and ExxonMobil continue with the status quo and thus help perpetuate a corrupt system that keeps three-quarters of Angolans living in absolute poverty.

At a time when world leaders are touting the role of private investors in helping the poor and pledging more money for development; the behavior of oil and gas companies that invest in poor countries is coming under close scrutiny. The Washington Post noted that if transactions between oil companies and host governments were transparent and accountable, there would be much less need for increasing publicly funded development assistance,

Scrutinizing its own role in the oil, gas, and mining sectors, the World Bank began a review process late last year which intends to address a complicated question: Can extractive industries contribute to the Bank's mission of poverty alleviation and sustainable development or should the Bank pull out of them entirely? The question is important for two reasons. Although extractive industries only comprise a small fraction of the World Bank's total lending, it facilitates projects that private companies would not otherwise undertake.

Many NGOs argue that the World Bank has no business in the oil and sector s because global climate change demands a rapid shift to renewable energy sources. International Financial Institutions (IFIs) such as the World Bank are well positioned to facilitate such a transition through innovative cofinancing and financial guarantees for clean energy. Oil and gas exploration increasingly occurs, often without local consent, in remote and often pristine territories where indigenous people live. Moreover, many critics cite a growing body of evidence that extractive industries in general work against the World Bank's mission by worsening poverty and exacerbating conflict in poor countries.

Yet, as oil, gas, and mining companies fan out across the developing world to the open embrace of host governments, the World Bank might find a new role to play. The Bank could use its leverage to nurture corporate social responsibility and accountability within extractive industries.

First of all, the World Bank needs a clear transition strategy in its own portfolio from fossil fuels towards a renewable portfolio standard. This should include a deadline by which time its energy portfolio is predominantly comprised of renewable sources. Secondly, the Bank should require government borrowers to develop national plans for clean energy development. Third, energy companies that benefit from World Bank projects should be required to increase their investments in renewable sources. A case in point is the Chad-Cameroon pipeline. While the Bank takes pride in the measures of transparency it achieved in the project, one of its main beneficiaries, Exxon-Mobil, continues to hold a retrograde position on climate change and is very slow to invest in renewables. The pipeline itself carries significant social and environmental costs as it will open new regions to more resource exploitation and human settlement.

Friends of the Earth argued in its recent report, Dubious Development, that the World Bank should cease financing with poor environmental and social records until they change their practices. As the fourth prong of a commitment to clean energy, the Bank should set a high standard for social and environmental performance for all energy investments, both fossil fuel and renewables. Well-established guidelines for such as Social Accountability 8000, the OECD Guidelines for Multinational Enterprises, and ISO 14001 for environmental management as well as the Global Reporting Initiative (GRI) for disclosure should be adopted for their worldwide operations, not just projects where the World Bank is present. Multinational corporations that cannot comply with these requirements should not qualify for lucrative World Bank project tenders.

If the World Bank Extractive Industry Review is to be successful, private companies must buy in to the fact that they are partners in furthering the World Bank's mission. This requires a vision that goes beyond the bottom line and a strategy to realize that vision. The tools are available. What is needed is the will to change.

Global Warming and the Risks to Shareholder Value
A report by Claros Consulting indicated that the Exxon-Mobil Corporation is potentially putting at risk more than $100 billion in long-term shareholder value through its policies on global climate change. The report, commissioned by the Coalition for Environmentally Sustainable Economies (CERES) and Campaign Exxon-Mobil, states that the company faces reputational and litigation risks, missed carbon trading opportunities, as well as unnecessary exposure to sudden policy changes. Exxon-Mobil will consider the issue at its shareholder meeting on May 29th.

The Environmental Legacy of Enron
The Enron Corporation completed constructed of a pipeline last year through South America's

largest remaining undeveloped tract of dry tropical forest. Enron received support from the US Overseas Private Investment Corporation (OPIC) despite agency prohibition of projects that threaten sensitive forest areas. Reported in the Washington Post on May 6th, a loose interpretation of OPIC environmental policy led to approval of the pipeline, which has now opened the region to poaching, and illegal logging and grazing.

Occidental Petroleum Cancels Columbia Plans
Los Angeles based Occidental Petroleum announced at its May 2nd shareholder meeting that it would return a controversial drilling block to the government of Columbia. The block has been the subject of international protest as it is located on the territory of the indigenous U'wa people. Critics celebrated the decision but stated that Occidental or other oil companies could still take up exploration on or around U'wa lands. Another point of controversy is $98 million of proposed US military aid to protect the Cano Limon pipeline, which pumps oil for Occidental and was attacked by insurgents last year.

California Leads the Way in Corporate Governance Reform
California Public Employees Retirement System (Calpers) and its sister fund Calsters are moving ahead with proposals to reform corporate governance in the wake of the Enron collapse. Reported on May 6th in the Financial Times, the funds are using shareholder activism to further a set of reforms include: new steps to verify the independence of company audits, improvement of corporate audit committees, and clearer, stricter accounting standards.

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