

International Oil Market, Business Ethics and Sustainable Development

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Abstract. The proven energy (hydrocarbon) reserves are found in Europe & Eurasia, Africa and the largest in the Middle East. While there is an increasing demand coming from the Asian economies like India and China, the stakes are high. This altogether is driving the oil companies to look for a larger share in the global hydrocarbon assets. The paper attempts to assess the entry of oil corporations, in the overseas hydrocarbon market within the framework of energy security policy. Oil has been a major source of energy consumption around the world. This has laid down a basic inquiry into oil resource as a blessing for few, but a curse for many. Therefore, the 'oil curse' has questioned the corporate attitude towards the local population and have put the subject of business ethics in debate. The paper further analyses the factors that drive the business policies and ethics in the context of oil industry. One of the key focus of the paper would be to analyze the major ethical issues in business such as unauthorized payments and environmental issues; and its implications on the very sustainability of the population in the host country.

Keywords: hydrocarbon; energy security; business ethics; environment; sustainability.

1. Introduction

Over the years, the growth in the industries which has given tremendous momentum to the energy industry has also changed the outlook of the local people towards the companies' operations. The business ethics followed by the corporates and the organizational structure of the host governments lack credibility and responsibility towards the people. Unethical practices such as payments in terms of royalties and huge signature bonuses and the oil companies attitude towards the environment, have jeopardized the survival of the population, where people are dependent on small time farming and fishing and which is the only means of livelihood for many regions. Eventually, with the expansion of energy business, the oil and gas industry today faces a lot of challenges. The secure extraction of resources remains a major concern as number of workers are exposed to risk and injury. The industry also faces issues like unemployment, health, education, lack of pure drinking water, etc. for the people in the host countries. The resource wealth is expected to support people's welfare and development, however, it has failed to do so. This has led to high rate of unemployment and illegal activities in these countries. Oil extraction has also resulted in numerous oil spills polluting the area. A series of other issues such as malnourishment and widespread diseases have taken a heavy toll on these countries. Gradually, the oil companies have turned their attention to take appropriate steps to provide a sustainable environment for the people.

2. A Strategic Resource

With the growth and development of the world, oil has become a strategic source of power. The developed and the developing regions are all dependent on this resource. Thus today, the global economies

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have moved to all parts of the world to acquire these resources and secure their energy supplies. Over decades, much of the hydrocarbon resources found in the Middle East have either been over explored or the fierce competition have led to the multinationals moving to high risk zones notably regions, like Africa. The huge demand coming from Asia makes it imperative for the oil corporations to venture in the unexplored regions. The rising Asian economies such as India, China, Korea, Japan, etc., have a growing demand. To be specific, India's oil demand is expected to increase from 2.6 mb/d in 2004 to 3.8 mb/d in 2015 and 5.2 mb/d; and, 30 bcm in 2004 to 55 bcm in 2015 and 98 bcm in 2030[1]. Thus today, the consumers have moved in all directions to enhance their energy security, also at times operating in tensed regions.

The growth and development has pushed forward, oil and gas production even from the most unstable parts of the world. With the human advancement and the ever expanding industrial movement, the world finds itself ever more reliant on the resource. However, with the continuous exploration of these resources and the oil multinationals paying hefty sums for the oil blocks, many critical regions lay in absolute poverty. This energy engagement between the oil corporations and the producer states has further intensified the militarization of the energy resources, encouraging the totalitarian regimes. High unemployment rate and ever increasing poverty has aggravated the conflict between the people and oil firms.

Over the time, the activities and agitations of the people have taken a rather hostile turn indulging in oil bunkering, kidnappings and killings of the oil company workers[2]. Besides grave poverty and pollution, the political aspirations of the people are also compromised to a large extent. The oil profits made the political leadership more dictatorial, as it conferred immense power into the hands of few elites. The oil resource has been a curse, rather than a blessing, where the leadership has become unaccountable towards the population and keen for power, where oil money is effortless. The slow pressures from international NGOs and other countries have created a few differences, not solving the issues of the people. And, the discontent of the people is evident from the popular protests leading to domestic violence and instability in many of these countries.

3. Sustainable development and business ethics

For years, the benefits of the 'black gold' have churned out billions of dollars, yet the life of the majority denies improving. However, the excitement created by the resource has been playing an altogether different economics for the people. People are left in dire poverty, with numerous health issues – cholera and malaria to name a few. This is also true in other extractive sectors like diamond. Thus to answer, the revenues from the oil sales have been enhancing the lavish lifestyle of the elites. Leaving alone the equitable distribution of revenues, these regions have been polluted the due to oil spills, killing the livelihood of the people.

The energy business has changed astoundingly, in the view of the changing consumption pattern due to growth and development, in terms of the globalization of energy resources. Thus, the increased usage of energy has questioned the very sustainability of planet Earth. With the increasing oil exploration, the oil companies ventures have worsened the situation of the inhabitants. As the rise and fall in oil prices is beyond the supply – demand matrix; the scramble syndrome and popular protests by the local communities have transformed the economics of the energy industry. Thus, while their stay in the host country, the oil corporations are making an effort to invest in the community development and environment programmes. The deal is obviously to propose a positive sum - sum view for the stakeholders, the deprived communities and shielding the environment, leading to a sustainable development. Hence, to ensure a sustainable development for the local population and for the protection of the environment, Corporate Social Responsibility (CSR) was introduced.

Thereafter, the CSR concept evolved beyond its boundaries and involved in a much more extensive dialogue between the governments, corporations and the people. CSR “refers to indirect consequences of sudden and steep rises in revenues from extractive industries for the host country and society, such as the effect of oil revenues on corruption, human rights controversies and lack of democratic progress in developing countries. Micro Corporate Social Responsibility refers to the immediate effects on local communities of the activities of a company, employment, labour conditions, local education and health care”[3].

In a context, where changes in the global supply – demand matrix is bringing pressure to enhance production, the oil firms are making an effort to invest in the community development. The oil firms have been blamed for serious environmental degradation. In Nigeria, “environmental degradation included the loss of fresh water sources while the company (ChevronTexaco) opened up numerous channels from the sea towards the coast to install their equipment”[4]. The oil firms have been showing a casual attitude towards environment impacting the local communities. For instance, since 1958 Shell has been extracting oil and gas from the Niger delta region, as a result, their traditional livelihood - fishing and farming has been devastated by the oil spills. Such spills have displaced the local communities without any compensation. Environmental degradation included the loss of fresh water sources while the companies open numerous channels from the sea towards the coast to install their equipment, as a result, fertile land, mangroves, tropical forests, fish, fresh water and wildlife is ruined. The damage done by the oil spills cannot be recovered, however, proper remuneration or assistance such as routine health check – ups, vaccines and creating employment could make people self – reliant.

4. Business ethics in a changing world

Natural Resources have often motivated non – transparency breeding corruption. This is also the result of the new players joining the market, further intensifying the stakes. The point is, how these rentier economies will maximize the social and economic status of its population through proper utilization of oil rents. While the oil prices are pushing forward, it is benefitting the producer states adding billions to their national coffers and deteriorating their environment and livelihood. For a majority of states, these revenues play an important role or many a times is the only source to fund the economic development and upgrade the social aspirations of the people. Unfortunately, oil being a strategic and the basis of growth and development, the wealth derived from it have accelerated poor governance. In this regards, business ethics or social responsibility majorly argues for a greater promotion of good governance and human rights. It also talks of transparency in the contracts between the oil firms and the state.

The solution for the oil rents to be used for the people, lies in an effective management of oil wealth, that will have people’s representative. This will ensure that there is public participation. At the same time, the producer states and the oil companies need to follow transparency in the deals. The purpose needs to be identified, for which the oil revenues are to be used. Unless similar initiatives are taken, the scramble for these resources will reach a point of high military activity, mass killings and severe environmental crisis. Or else, the oil deals and revenue transactions will be similar to robbing the people of their right. Hence, there is a need of a new regime, which will act as a tool to sabotage corruption and unaccountability, with efficient resource management.

Lately, oil companies have been following business ethics mainly, to endorse cordial relations between the corporation and the people and to provide the basic subsistence to the population, while, maintaining sustainable development for the communities and the environment. Fair business policies fail in the least developed countries. The need to promote fair business practices is borne from the global demand for oil and gas; and, the producer regions need for sustainability and development. Thus, business ethics and social responsibility of the corporations is the companies’ investment for the welfare of the people that will assure the formers operations in the region and which will also secure goodwill for acquiring overseas energy assets.

5. Business ethics in underdeveloped regions

Risk management is the catchphrase for the world today and the business firms, are looking at the risks involved with an affirmative approach, especially where the long – term commitments are involved. The risk management involves the analysis of the risk involved in the decision making or the investments of the firm and finding solutions to it by reducing or preventing the loss. The risks involved have varied in nature, they are related to facets such as, personnel’s health, capital investments, asset protection, severe environmental impact, etc. These risks occur due to factors such as decision – making, explosions, oil spills, product theft, geopolitical risks (land and sea), installation sabotage, loss of life, etc. The few risks impact the firms, but the most of the operations in the world have led to severe environment impact forming a threat to all life forms. The environmental assessment process should begin during the early stages of pre – project

planning, and continue, as an iterative process, throughout project feasibility and specification phases, detailed design, construction and operations[5]. The risk could be assessed by the asset value, threat factor and its potential impact leading to loss, where uncertainty is constant. Risk assessment should be regularly in check for capital and asset protection.

Today, nearly all businesses face uncertainty and the magnitude of risks involved in their operations is huge. However, almost all operations or industry processes in the world require energy, hence no other business is as versatile as the energy business. Thus, the risk it faces is also huge. The basic threat that the economies face is energy security. Time to time, the energy operations has witnessed disruptions. Issues such as, rising demand, increased competition due to high insecurity and instability in the energy rich regions have created a threatening situation for the consuming and the producing countries alike. Any disruption would cause the producer country billions in loss, apart from the economic crisis created for the consumer nation, where the energy was to be exported. The vehicle industry, agriculture industry, etc. are all dependent on the availability of petroleum. Hence, when the oil price rises due to disruptions or due to speculations, the whole economy gets affected, this poses a major threat and a risk factor at the global level.

The oil industry has also gathered a lot of criticism for its neglect for environment. Oil spills throughout the world has led to loss of basic livelihood of the indigenous people, which is agriculture and fishing, which is largely visible at many places. Following which, there are popular protests against the firms jeopardizing their operations. The oil and gas operations have had wide range of effects on the biological balance. Large oil spills have turned once fertile agricultural land into wastelands, while the oil flowing into waterways have destroyed the fishing grounds. For instance, as many as 546 million gallons of oil spilled into the Niger Delta over the last five decades, or nearly 11 million gallons a year, a team of experts for the Nigerian government and international and local environmental groups concluded in a 2006 report[6]. The spills also led to displacement of the people, making their settlements uninhabitable, leaving the pasture and livestock dead. As the dependence on oil and gas continues to increase, the resource will become more critical as larger imports are required from the unstable regions.

6. References

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