

Financial Transparency and Oil Revenue: A Major Challenge for Our Industry

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The Challenges of Financial Transparency

Civil society is demanding greater transparency with regard to the financial flows of extractive industries. These demands concern oil and gas production in particular and are supported by the following observation: too often, developing countries with significant oil and gas resources are unable to harness this wealth to drive their own development or improve the well-being of their own people. Although oil and gas often account for more than 20% of GDP and represent their main source of tax and export revenues, it's not unusual for these countries to be held back by a combination of slow growth, failing education and health care systems, public governance problems, and a fragile, relatively undiversified economic base. This phenomenon is sometimes described as the "oil curse." The effective use of financial flows generated by the oil industry is therefore a major challenge for these countries.

Transparent information about these revenues must be provided before opening any discussion of how they should be used. Experience has clearly shown that a lack of transparency can make it easier for corruption, conflict and waste to occur. A country's political and social authorities are entitled to know how much revenue is generated by the development of its natural resources and how that revenue is used. The sharing of oil and mining revenue is a frequent cause of tension between central and local governments, regions or ethnic groups. And the risk of violence is heightened when information is not fully and openly shared by these parties.

Obviously, transparency is not an end in itself. It cannot replace a political framework that encourages dialogue, a competent administration that acts in the public interest and skillful macroeconomic management. Nonetheless, a commitment to greater transparency can be one step in a political process that simultaneously improves governance, public finance management and the economic and social situation.

Transparency cannot be improvised. It's a complex process whose deployment takes time and requires that a number of political and technical conditions be met.

The Political Foundations for a Transparency Initiative

The political aspect is crucial because for a transparency initiative to really succeed, it must have the full support of the government, starting with its most senior officials, since they are ideally positioned to define objectives and assign responsibilities to agencies, national and foreign companies, experts and other stakeholders.

Officials must also assume the political consequences for the initiative by ensuring that information they produce is shared with local institutions and representatives of civil society.

In order to make a real contribution to improving public governance, transparency requires a voluntary commitment from the government.

The EITI is Starting to Produce Results

Launched at the 2002 World Summit on Sustainable Development in Johannesburg, the Extractive Industries Transparency Initiative (EITI) is based on a commitment from producing countries, which must publicly express their support for its principles and implement a corresponding action plan. Participants include a number of consumer countries, beginning with the G7 nations, as well as producing countries, companies and NGOs representing civil society. French authorities and Total have supported the initiative since the outset. The EITI has also received the backing of the International Monetary Fund and the World Bank.

This voluntary approach has been criticized by a number of NGOs that actively participate in the EITI and acknowledge its importance but also feel that the only way to effectively advance the cause of transparency is to require oil companies to disclose all income and other taxes, royalties and other payments made to the governments of the countries in which they operate.

That approach is advocated in the "Publish What You Pay" campaign introduced by these organizations shortly before the EITI was launched. Like the EITI, the campaign emphasizes the importance of financial transparency in ensuring that oil revenue management serves the people's interest. However, it is based on the assumption that these countries' governments will be very reluctant to voluntarily participate in the process and only a commitment to transparency made by the oil companies operating on their territory can oblige them to do so. The tactical reach of this approach is easy to understand. Its implementation, however, quickly runs into a problem—

by requiring financial disclosure only from publicly traded, multinational oil companies, the approach would give a distorted view of a government's oil revenues since other operators, in particular national oil companies, are excluded from the process.

The idea that government reluctance to financial transparency is an insurmountable problem seems too pessimistic. As of year-end 2005, ten producing countries—including Nigeria, Gabon, the Republic of the Congo and Azerbaijan—had announced their support for the EITI and reached varying stages in the implementation of their national transparency programs. Ten others, including Angola and Cameroon, are exploring the possibility of implementing such a program.

For the moment, the number of EITI partners and the tangible impact of their programs are still far from satisfactory, but the progress made in the past three years reflects the initiative's validity. It seems reasonable to hope for a ripple effect and that, with time, a number of partially implemented efforts will become truly transparent.

Transparency, a Complex, Demanding Process

Clearly, it's unfortunate that the movement to promote transparency hasn't been bigger and faster. But in addition to requiring a political commitment, the initiative is also technically complex and demands an organizational effort. The policy of implementing the EITI developed gradually and pragmatically through discussions and exchanges involving governments, oil companies, international institutions, NGOs and other stakeholders.

To extend the principles embraced at the London Conference in 2003, the EITI secretariat has prepared the EITI Source Book, which presents the initiative's core components, both for governments and for oil and mining companies. In addition, the IMF published a Guide on Resource Revenue Transparency in 2005 that recommends methodologies and best practices to support governments programs, especially in the oil and gas industry. These publications are important because they provide governments that want to implement the EITI with the means to adapt the system to their particular environment while respecting the initiative's principles and criteria:

- A government-initiated conference attended by all stakeholders to define the guidelines for a transparency work plan.

- Publication of all payments to a host country by international companies and local operators and all revenues received by governments from extractive industries.
- Audit of those payments and revenues by a credible, independent expert.
- A clear presentation of the data compiled in this way to be made available to representatives of civil society and used in public debate.

It is important that the data gathered from oil and gas producers be based on the same definitions and calculation methods and is sufficiently complete to allow for aggregation and comparison with revenue figures in government budget documents.

Transparency is in Total's Interest

With regard to the institutional transparency process undertaken as part of EITI, what does a company like Total feel is its responsibility?

Generating over 60% of its oil and gas production in non-OECD countries and as the leading multinational industry operator in Africa, Total is very directly concerned by these issues, which represent important financial flows. In 2004, we paid more than €5 billion in income and other taxes to non-OECD governments for our exploration and production operations and invested €3.9 billion in those countries.

These investments correspond to very big industrial projects that mean we will be operating in these regions for decades to come. The support of the local population and civil society in host countries is indispensable to ensure the stability and success of our projects. That's why Total's operations must be effectively integrated into the local environment. Our commitment to financial transparency can help make the integration process a success.

It is therefore our duty to do everything we can to help authorities who want to implement a transparency program, to share with them our experience and provide them with technical information, and to cooperate fully with local agencies and outside experts, whether representatives of international financial institutions or of audit firms responsible for checking, comparing and consolidating data.

That's why we have created a special unit within the Exploration & Production business to provide operating subsidiaries with our guidelines, methods and acquired experience in financial transparency. The EITI Source Book has also been posted on the intranet for our subsidiaries.

Our units in Azerbaijan, Nigeria and the Republic of the Congo are directly involved in data publication projects completed or underway in these countries. For host countries that are currently exploring the possibility of implementing transparency programs, we provide technical support, while respecting our confidentiality obligations.

A Commitment to Transparency Aligned with Local Actions

We demonstrate our commitment to supporting local development in different ways, in particular by hiring and training local residents, purchasing products and services locally, helping to diversify the local economy, and introducing economic and social support programs for neighboring communities.

These actions are carried out in line with our main mission, which is to develop the oil and gas resources of our host countries, while operating in a highly professional manner, respecting local laws and contractual obligations, and maintaining the highest standards of safety, environmental protection and resource allocation.

Developing reserves as efficiently as possible, closely monitoring the local socioeconomic impact of our operations and promoting greater financial transparency are three interrelated aspects of our sustainable development commitment.

Outlook

We still have a way to go to make revenues generated by oil and gas operations sufficiently transparent, but the result-oriented process launched in 2002 has created a momentum that I feel is encouraging. Governments, companies and representatives of civil society have joined forces to define an appropriate framework. A few countries are leading the way and have already published their data. Their example should create a ripple effect that will spread the practices recommended by EITI and enable the ten countries that support the initiative to be joined by at least 20 others in—I hope—the very near future. It's in the oil industry's best interest to be recognized as being concerned about transparency, while supporting the development and respecting the sovereignty of its host countries. Total is already engaged in this challenging process and will continue to support it.