Why SOE transparency matters and what are the emerging issues for SOEs?

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EITI Eurasia and Southeast Asia Regional EITI Roundtable
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Outline

1. Why SOE transparency and accountability are so important
2. The global energy transition and a changing investment climate
3. Innovations in state-owned enterprise reporting
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Learning from the success stories
Challenges: State-owned enterprises have complex roles

Priorities?

- Managing contractors
- Generating fiscal revenue
- Exploration and operatorship
- “World class” commercial efficiency
- Job creation
- Subsidizing fuel consumption
- Social and community spending
Managing stakeholder demands

Raiding the piggy bank

Political interference

Boundless expectations

Sources:
https://business.financialpost.com/personal-finance/retirement/rrsp/should-you-raid-your-rrsp-to-pay-debt;
Factors which make corruption more likely

- Limited transparency
- Weak oversight
- Weak integrity measures
- Weak sector institutions and processes
- Undermining competition
- Weak enforcement of rules
- Foreign enablers
Common forms of corruption issues

• Bribery or collusion in licensing, contracting or trading deals, often in collaboration with agents and intermediaries

• Favoritism in licensing and contracting

• Bribery to influence SOE regulations and approvals

• Favoritism in the SOE’s regulatory activities and approvals

• Officials hold commercial interests in the sector which create conflicts of interest and improperly influence decision-making

• Misappropriation or embezzlement of SOE funds

• Companies or officials unduly influence the SOE’s laws and rules
Petrobras: a perfect storm

• Overstretched mandate
  - Commercial: mandatory operatorship in deepwater
  - Non-commercial: fuel subsidies

• Political interference

• Pressure from elite private sector

• Lack of strong corporate controls
Transparency still lacking for many NOCs: the Resource Governance Index

https://resourcegovernanceindex.org/
## Complementary mitigating measures

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<th>Risk factor</th>
<th>Example mitigating measures</th>
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<tr>
<td>Weak oversight</td>
<td>Require regular independent external audits</td>
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<td>Engage with parliament and other external oversight actors, such as media and civil society groups</td>
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<td>Weak integrity measures</td>
<td>Establish and empower a compliance function</td>
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<td>Implement a code of conduct</td>
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<td>Weak sector institutions and processes</td>
<td>Clarify the rules on the relationship between the SOE and other government institutions</td>
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<td>Put in place systems for managing conflicts of interest across SOE roles</td>
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<td>Undermining competition</td>
<td>Implement procurement reforms to support the fair selection of suppliers and contractors</td>
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<td>Support revolving door reforms which limit how officials participate in the industry</td>
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<td>Weak enforcement of rules</td>
<td>Standardise and automate processes to reduce discretionary decision-making</td>
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<td>Foreign enablers</td>
<td>Require integrity and compliance standards for foreign partners</td>
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<td>Prohibit the use of agents</td>
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Energy Transition: the shift from the use of fossil fuels to avoid climate-related disaster

**Diplomatic:** UN Framework Convention on Climate Change (Paris Agreement)

**Technological:** Dramatic improvements and cost reductions in renewable energy

**Financial:** investors reorienting resources away from fossil fuels
The climate crisis and the global energy transition requires a dramatic shift away from oil and gas

International Energy Agency found that in order for the world to stay on track for a global temperature rise of no more than 1.5 degrees Celsius, fossil consumption would have to drop enough that:

- No new oil and gas projects (those that have not yet reached final investment decisions) would be viable
- Oil and gas producers worldwide would see their per capita GDP from the sector drop by 75 percent
- The oil price would drop to an average of $35 per barrel by 2030 and $25 per barrel by 2050.

Source: IEA
(Many) International Oil Companies are revising their expectations downward.

Seven top oil firms downgrade assets by $87bn in nine months.

Thinktank says changes to forecasts reflect accelerated shift away from fossil fuels.

MARKETS | COMMODITIES

BP Takes $17.5 Billion Write-Down, Expects Oil Price to Stay Low

'Stranded': Total writes down $8bn of fossil fuel assets

Shell’s $22 billion Q2 write-down is just the tip of the iceberg for fossil fuels

Eni to book 3.5 billion euro asset writedown after cutting price outlook
National oil companies must make investment decisions in an increasingly uncertain environment.

Following their current course NOCs could gamble $1.9trn, of which $400bn on projects won’t break even if we meet Paris target.

This could be disastrous for these companies and their economies.

Source: NRGI, *Risky Bet*
Strategic questions facing state-owned enterprises

1. What kind of upstream role should the company pursue? What kinds of risks can it withstand in its commercial activities?

2. Is there a role in for the company in evolving markets, such as energy provision?

3. How can the company finance its activity and how should the fiscal relationship between the company and the state evolve?

Strong transparency is a key to sustainable public decision-making on all of these fronts!
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Changing global standards

IMF Fiscal Transparency Code - 2019
Reporting innovations among SOEs: 4 C’s

1. Clear
2. Comprehensive
3. Consistent
4. Creative

Source: NRGI
Energy transition and SOE reporting: EITI innovations

“The transition has profound implications for the extractive sector, and it will not be easy. The EITI can be supportive of the transition, as the robust data gathered to meet its requirements, when published and used responsibly, can advance understanding of transition pathways.”

-Helen Clark, EITI Board Chair

EITI Standard 5.3(c):

The multi-stakeholder group is encouraged to disclose further information on revenue management and expenditures, including:

(c) Timely information from the government that will further public understanding and debate around issues of revenue sustainability and resource dependence. This may include the assumptions underpinning forthcoming years in the budget cycle and relating to projected production, commodity prices and revenue forecasts arising from the extractive industries and the proportion of future fiscal revenues expected to come from the extractive sector.
Thank you