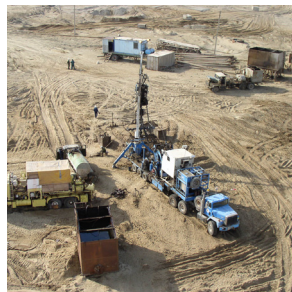


Guide to operating in areas of conflict

for the oil and gas industry

Social
responsibility
2008

www.ipieca.org



Operating in areas of conflict

An IPIECA guide for the oil and gas industry



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Executive summary

It is generally understood that companies working in the extractive industries, and particularly in the oil and gas sector, need to be aware of the impacts of their operations on conflict and vice versa. Failure to understand and address local dynamics in regions of known or potential conflict can be costly to companies in terms of impact on employee safety, normal business operations, social licence to operate, reputation and future opportunities.

Oil and gas companies have accumulated considerable experience of working in areas of conflict. However, basic knowledge of, and training in, conflict risk and conflict management is not always readily available to company personnel.

The purpose of this Guide is to provide, in a simple and accessible format, basic guidance on risk assessment and risk management in conflict settings that oil and gas companies might face. These include conflicts between companies and local communities which are directly related to the presence and operations of the companies themselves, as well as wider social and political conflicts in which companies are not directly involved but which are very likely to impact on companies operating in such conflict environments.



Box 1: The Guide—an overview

Risk assessment

The first part of the Guide is intended to assist multinational oil and gas companies in assessing the potential risks, community impacts, and reputation and ethical dilemmas they might encounter when first looking to invest in geographic regions of conflict, and when planning new investments in countries where companies have existing operations.

Risk management

The second part of the Guide aims to provide companies with practical guidance on how to manage conflict in ways that do not compromise their ethics and reputation, or contravene national laws and international norms and standards. These risk management approaches range from 'doing no harm' in operations to active measures to prevent and manage conflict.

Conflict risk assessment in brief

The purpose of a conflict risk assessment is to identify the severity of the risk of conflict within a given region or area. It will assist companies to understand the level of risk involved when first looking to invest, or when looking to increase investments, in conflict areas.

Risk assessment: a three-step approach

1. Traditional risk assessment
2. Conflict analysis
3. Conflict impact assessment (CIA)

Oil fuels flames of war

By Joseph Roth
and Peter Critchley

ONCE AGAIN, the oil industry is, quite literally, under attack. A number of groups of armed innocent members of the community, including a number of company employees have died in the violence. Perhaps it is inevitable that the ones who ultimately suffer the most are

First, **traditional risk assessment** tools help to identify whether and where conflict is likely within a geographic or political area. The risk assessment process will determine whether the problem is one of ongoing conflict or post conflict (the evidence for which is generally clear), or whether it is a problem of potential conflict (the evidence for which is often less obvious). In a pre-conflict situation, basic risk assessment will generally indicate whether or not there is a risk of future conflict which could impact investment decisions.

Second, if it is decided that future, present or prior conflict is a significant concern in the area of company operations, **conflict analysis** can assist in identifying the nature and causes of the conflict. Conflict analysis should be carried out by conflict experts or those with significant experience in this area. It involves research on the region in question, engagement at the field level (including interviews with stakeholders, community observation, etc.), report writing and presentation of findings to the company.

Third, once the nature of conflict has been determined, **conflict impact assessments** help to identify how investments (and/or other corporate activities) will affect the potential or existing conflict (and vice versa). Conflict impact assessment draws on the conflict analysis which has already been carried out to assist in interpreting the potential impacts both of the conflict on the investment and of the investment on the conflict. The conflict impact assessment will inform not only investment decisions but also conflict management strategies going forward.

Because conflict is dynamic and fluid, once the decision to continue with an investment in a conflict-affected area has been taken it will often be necessary to establish a risk assessment system. A risk assessment system makes use of conflict analysis and data to give a predictable view of developing risks associated with conflict in a given area, and enables the identification of potential hotspots and emerging conflict issues and indicators.

Once established, such a system can be used to:

- monitor the conflict situation and dynamics in an area of operation over time;
- continuously assess impacts of conflict on investments and vice versa; and
- provide input to conflict management responses.

Conflict risk management in brief

Conflict risk management involves a variety of strategies and actions to prevent, manage and resolve conflict. These range from 'light' (often internal) measures such as developing conflict-sensitive corporate policies and practices, to more intensive (often external) initiatives such as providing support to conflict management efforts and building on the capacity of communities, as well as local or national conflict management resources.





Conflict risk management starts from within by looking at how corporate policies and practices affect the dynamics of a conflict. These might include policies and practices related to recruitment, compensation and security. Risk reduction starts with ensuring that a company's actions and the behaviour of its personnel **'do no harm'** in terms of exacerbating existing conflict or stimulating potential conflict.

Basic principles, which have been developed over time and with experience, include: adhering to national laws and international norms such as the Voluntary Principles on Human Rights and Security; engaging with local communities as partners in preventing and managing conflict, rather than approaching them as a threat or risk; distributing any benefits provided by the company (including jobs, development assistance, etc.) widely and fairly across communities; and insisting on the application of transparent principles of accountability.

In situations of violent conflict, it may be necessary for companies to play a more active role in the external environment. The **'do something'** approach involves a combination of internal and external measures. Such measures might include: investing in the company's front-line and backup conflict management capacities; increasing conflict sensitivity of operations and of community outreach projects; and establishing early warning systems for areas prone to violent conflict.

In situations where the potential or actual impact of conflict on operations is significant, a more substantial **'do something ++'** engagement around wider conflict issue management may be required. This needs to be handled with great sensitivity, but can include: building external conflict management capacity (e.g. supporting local and national conflict management resources; providing training; funding study tours to regions where successful conflict management has been achieved etc.); and providing funding and/or technical assistance to national and/or international conflict resolution efforts.

Many international oil and gas companies realize that conflict risk assessment and management are basic due diligence when investments are considered in areas or zones of existing or potential conflict. These steps, when undertaken effectively, can assist companies to avoid costly mistakes by alerting them to existing or emerging conflict issues and by informing both investment decisions and successful conflict management strategies.

"Pull Out!" Critics demand to Company operating in war torn

MINORITY GROUPS yesterday called for a leading petroleum company to close its operations and withdraw from the south-eastern region.

By BARRY CLEMENT

Increasing opposition to the presence of foreign investment in the area have continued to benefit the local communities through provision of health care, education and employment.

Oil for nothing:¹
Multinational corporations, environmental destruction, death and impunity ...

By Harvey Williams

It's official—oil corporations are seriously threatening the livelihoods of many thousands of people living in communities adjacent to some of the most productive well sites on the continent. Due to the many forms of oil-generated environmental pollution evident throughout the region, farming protest and activism by affected communities is frequently met with military repression, sometimes with the loss of lives. In some cases, military forces have been summoned by the companies themselves to provide protection and repression.

¹ Title taken from a report by Essential Action and Global Exchange: *Oil For Nothing: Multinational corporations, environmental destruction, death and impunity in the Niger Delta*, published 25 January 2000. Author names and text are fictional. www.essentialaction.org/shell/report/index.html

Background



It is becoming increasingly clear that conflict, in all its forms, is a business risk that the oil and gas industry cannot afford to ignore. In fact, oil and gas companies working in regions that are experiencing conflict or that are at risk of conflict need to take decisive steps to address the problem proactively and conscientiously if they are to manage and reduce the risks that conflict poses to their operations, existing or potential.

The problem of conflict assessment and management is not new. Political and social instability have long been a common feature of many countries where large oil and gas resources exist. Recently the problem has been getting worse as the competition for reserves heats up and as the oil and gas industry increasingly gets drawn into doing business in more conflict-prone regions of the world.

At a minimum, conflict and social unrest can cause costly delays to new projects and operations. Conflict can also result in damage to a company's reputation, depending on the company's responses to conflict and on the consequences, or perceived consequences, of its behaviour and actions. In the worst cases, these situations can lead to the loss of lives and livelihoods among local populations, employees or contractors, and profound developmental set-backs.

In dealing with conflict, greater success comes from working proactively to prevent conflict and to build sustainable relations with communities and governments than from trying to defuse discontent and outrage once they have emerged. At a minimum, companies need to be aware of the potential impacts of their operations both on their own business and on the external environments in which they are working. And they need to pursue actions and policies that do not stimulate new conflicts or aggravate old ones.

For many years the oil and gas industry has accumulated extensive and practical knowledge both of the causes of conflict and of the actions and strategies that can serve to prevent, manage or resolve it. However, it is important that this knowledge is put to good use and the lessons of difficult and painful experiences are learned and communicated.

This Guide aims to provide companies with basic conflict management advice and guidance, drawing on the experiences of experts who have worked in the field of conflict management in oil and gas producing countries. The objective of the Guide is to save time, to protect resources and reputations, and to enhance the safety of employees and of the communities in which they do business.

Activists arrested on offshore platform Company loses \$ millions per day as operations disrupted

By Jason Riley

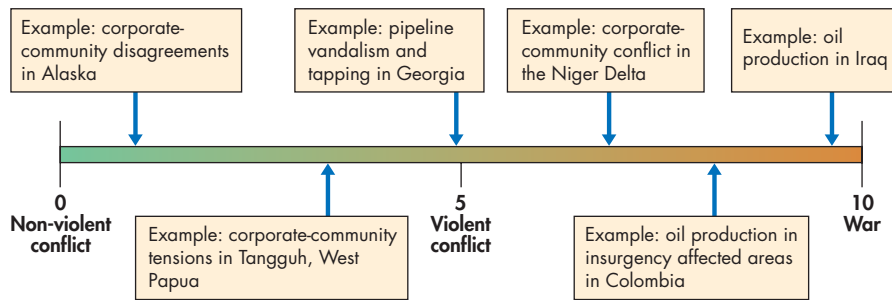
An offshore oil platform operated by one of the world's leading exploration companies was forced to close after a protest by unauthorized protesters attempting to obstruct oil exploration activities. A source speaking on behalf of the activists said that their aim was "simply to highlight the presence of poor weather conditions, company spokesman said earlier today. "Whilst we regret the interruption to operations, our primary concern was for the safety of the individuals responsible

Introduction

Purpose of the Guide

Oil and gas companies, and the wider extractive industry, often have to deal with disagreements with local stakeholders. In most cases, disagreements or conflicts between a company and local stakeholders are solved in an open, constructive and non-violent manner. In extreme cases, disagreement can lead to violent conflict and can impede the company's ability to operate. Examples of the range of conflicts faced by oil and gas companies are given in Figure 1. For a definition of conflict, see Box 2.

Figure 1: Scale of conflict



From the point of view of the oil and gas industry, it is important to distinguish between two different categories of conflict:

- **Conflicts related to the wider socio-political context.** These are conflicts that are not directly related to the presence of the industry. Consequently the company or companies involved have little control over such conflicts.
- **Conflicts that are directly related to the industry's presence.** The company or companies involved have a much greater degree of control or impact over these conflicts.

The causes of wider, macro-level conflicts are often diverse. They can include basic and long-standing problems such as poverty, social/political marginalization and injustice, as well as greed and political power struggles or disagreements over the control of trade or resources such as land, water and minerals.

Box 2: What is conflict?

Conflict occurs when two or more parties believe that their interests are incompatible, express disagreeable or hostile attitudes or take action that damages other parties' ability to pursue their interests. It becomes violent when parties no longer seek to attain their goals peacefully, but resort instead to physical aggression.

International oil companies (IOCs) have the same responsibilities in conflict-affected areas as they do in stable investment environments. They are expected to comply with legal obligations and to observe relevant international rules and norms covering areas such as human rights, corruption, labour management, safety and environmental protection.

Because legal systems in conflict-affected areas can be inadequate or lacking, international codes of conduct that provide guidance on acceptable behaviour and standards can be particularly useful when undertaking work in such areas. Companies that operate or plan to invest in areas of known or potential conflict need to carefully review the laws, relevant international rules and standards, best practice and lessons learned that could affect their operating environment and business strategy.

However, risks to businesses in zones of conflict go beyond failing to meet legal requirements or internationally accepted standards. There are also serious risks to project delivery and company reputation. Some of the common potential threats and/or negative outcomes of working 'blindly' in a conflict zone (i.e. without due attention to such risks) are outlined in Box 3.

On the other hand there can be real benefits to companies that can demonstrate successful prevention, management and/or resolution of conflict. Crucially these benefits include: enhanced safety of personnel; positive impacts on corporate brand and reputation; future business opportunities in areas of instability where other companies do not have capacity to operate or are not preferred partners; and the avoidance of the negative consequences listed in Box 3. Notably, conducting risk

Box 3: Possible negative outcomes of working 'blindly' in a conflict zone

- Risks to staff (safety and mobility).
- Security of company infrastructure is compromised.
- Business opportunities become constrained due to reputational concerns and rising costs.
- Poor relations with local communities and workers, including potential violence (i.e. clashes between local communities and company security staff and/or government forces).
- The violation of human rights by company or by government forces operating on behalf of company.
- Weak employee/contractor retention.
- Failure to deliver project on time and on budget.
- Lack of investor confidence results in shareholder resolutions.
- Direct negative impact on corporate brand and reputation.



assessment and management activities can save companies from having to spend large amounts of time and resources on reactive measures.

In order to help prevent the possible negative outcomes and maximize the positive outcomes for oil and gas companies operating in areas of conflict, this IPIECA Guide includes guidance on both risk assessment and risk management.

Whereas this Guide is focused on conflicts that have the potential for violence or are violent in nature (i.e. ranging from 4–9 on the conflict scale in Figure 1), non-violent conflicts should not be disregarded. Such conflicts may worsen with time and therefore need to be handled with care and monitored regularly.

It is important to stress that there are no quick fixes to preventing, managing and resolving conflicts. The challenges are therefore considerable. However, the risks associated with conflict, including violent conflict, can be managed and in most cases minimized, provided appropriate steps are taken early and often.

It should also be noted that conflict risk assessment and management on the part of companies, both IOCs and NOCs (national oil companies), is not intended to substitute for the role of the government in any situation. Although companies can make an effort to constructively address those issues which impact on their operations and stakeholders, the state holds ultimate responsibility towards its citizens especially in protecting human rights.



Who is this Guide for?

This Guide was developed and designed for all levels of management (see Box 4). It provides a practical outline of the risks associated with violent and non-violent conflict that companies need to assess and manage. It aims to help companies which operate in zones of conflict to overcome the challenges presented by conflict and to promote positive business relations and a beneficial social, economic and political environment.

Box 4: Levels of management that may benefit from using this Guide

- Project managers
- Construction and engineering managers
- Security personnel and managers
- Legal and regulatory officials
- Executive management teams
- Investor relations managers
- Community relations and engagement personnel
- HSE personnel and advisors
- Public or external affairs personnel
- Risk management and assessment personnel

Wealthy oil states squander their wealth

OIL COMPANIES investing in some of the world's resource-rich nations are being criticized for continuing to pump oil and money into countries whose governments fail to comply

BY PETER KAPLINSKY

local populations simply don't benefit from the investment, whilst governments continue to reap the profits

In what situations should the Guide be used?

This Guide is intended for use by companies operating in, or considering investment in, areas affected by potential or existing conflict and in post-conflict situations. In such places, companies may be drawn into, or affected by, conflict in varying degrees.

The tools outlined in this Guide can also be used where there is potential for violent conflict. Such 'pre-conflict' situations are sometimes difficult to identify. However, guidance on this is given in Section 1.

What is this Guide based on?

The tools and recommendations outlined in this Guide are based on a combination of good practice and practical corporate experience. The different approaches and instruments presented are not only commonly used by governments, multilateral agencies and NGOs; they have been tried and tested (with varying degrees of success) by international oil and gas companies themselves operating in environments of conflict and political instability.

Oil and natural gas in conflict²

The dark side of natural resources

Jackson Braun and Chris Wright

AN ABUNDANCE of oil and gas reserves in any country should, in theory, be the best thing that a government and its people could hope for. And in many cases it is. Investment

to bring higher standards of living overall. Yet, this significant potential for social and economic growth is accompanied by a darker side—the illicit control of oil and gas resources and revenues by illegal armed groups seeking to advance their own causes. It is also



² Title taken from Global Policy Forum website: www.globalpolicy.org/security/natres/oilindex.htm. Author names and text are fictional.

Section 1

Guidance on risk assessment

The purpose of a conflict risk assessment is to identify the severity of the risk of conflict within a given region or area. It enables companies to understand the level of risk involved when first looking to invest, or to increase investments, in volatile or conflict-sensitive areas.

There are three basic components in a risk assessment:

1. Identify *where* conflict is likely within a geographic area. This can be done using traditional risk assessment systems.
2. Understand *the nature* of conflict. This requires some form of conflict analysis.
3. Identify *how* investments (and/or other corporate activities) could affect conflict (and vice versa). This involves using conflict impact assessment tools.

See Box 5 for a summary description of these tools.

Box 5: Overview of risk assessment, conflict analysis and conflict impact assessment tools

Risk assessment systems use simple (but context-specific) indicators of conflict risk and link these to reliable data sources. They help identify whether countries, regions, districts or communities are at risk of conflict or not. Such tools enable senior management to say: 'it is safe to invest here'; or 'we may invest here, but we need to engage in risk management to secure our investments'; or 'it is unsafe to invest here because the risks are too great'.

Conflict analysis normally involves the assessment of conflict factors (e.g. unemployment, corruption, weapons availability, etc.), peace factors (e.g. history of co-existence, inter-marriage, trade interdependency, etc.) and stakeholder dynamics (i.e. the interests, actions and linkages between different groups that are part of an actual or potential conflict). Using these elements, the analysis can project scenarios (escalation, status quo, de-escalation) and inform conflict management strategies. Conflict analysis is usually a one-time exercise.

Conflict impact assessments (often referred to as CIAs) combine a standard conflict analysis with detailed review of the 'nuts and bolts' of a planned investment (or other corporate activity). Such tools enable senior management to say, 'if we invest here in this way, this is how we may be affected by, and might affect, a situation of (violent) conflict'. CIAs are therefore also used to determine strategies to reduce negative impacts of and on conflict. These are essential elements of risk management.

Where to start

The first step is to decide whether it is necessary to undertake a risk assessment.

If investments are to be made in areas of suspect or overt violent conflict then the answer is yes. In post-conflict situations (the period after cease-fire agreements or the end of hostilities) the decision about whether to undertake risk assessment is slightly more complex. However, post-conflict situations (even five years or more after hostilities) are fragile environments; it is safer to err on the side of caution and deploy such tools.



As a rule, deploy risk assessment tools in areas experiencing conflict and in post-conflict settings.

Therefore, as a rule, deploy risk assessment tools in areas experiencing conflict and in post-conflict settings.

There are many situations where the potential for conflict is significant. Here too, risk assessment is needed. But how do we determine whether an area or country is in a pre-conflict phase? A basic Above Ground Review (AGR) can provide some answers (see Box 6 for a description of AGRs).

There are some common warning signs of a growing or imminent conflict. Keep in mind that the list provided below is not exhaustive:

- Expressions of frustration and grievance by communities, e.g. community leaders state they do not feel respected or that the company is not addressing expressed grievances effectively. This can be followed by stronger community demands, threats and hostilities.
- Physical reactions of local communities to incidents involving the company, e.g. demonstrations or vandalism justified by communities as protests at the behaviour of operations personnel. An increased frequency of such reactions may be followed by violence.
- High levels of gun crime in areas where company facilities are protected by armed guards³.
- High levels of insecurity among the local population, combined with weak and/or biased government law enforcement.
- Incompetent and corrupt judiciary and/or para-legal institutions (e.g. traditional courts, etc.) that reduce the ability of aggrieved individuals or groups to gain access to justice or to find just and peaceful solutions to disputes. This problem is exacerbated when courts are biased towards or against specific ethnic or religious groups.
- Increasing frequency of human rights abuses perpetrated by government agents or groups associated with the state. Such abuses may include arbitrary arrests, the use of excessive force by security forces, curtailment of freedom of association and expression, etc.

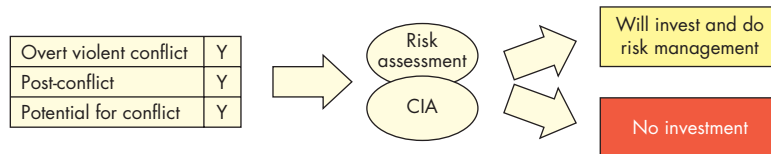
Box 6: An Above Ground Review (AGR)

An Above Ground Review (AGR) is the process of evaluating, anticipating and managing risk related to new or incremental investment in a country. It examines how changing political, social, economic and security events can impact on the ability of a business to operate in that environment. The AGR process actively engages governments, non-governmental organizations and communities, at many levels, in dialogue on how stakeholders could potentially be impacted by an investment decision. An AGR should take into consideration a wide range of socio-political risks, including risks associated with human rights and security.

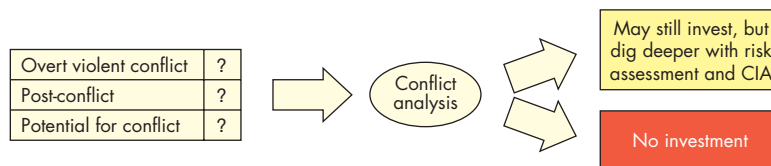
³ This depends on the location—in many countries the law does not allow private security contractors to carry arms.

Based on the above, managers can, as a first step, make one of three possible decisions:

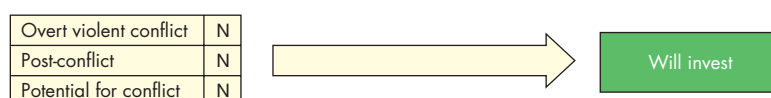
Decision 1: Recognize that the situation is one of pre-conflict, actual conflict or post conflict. Undertake a risk assessment to identify geographically where (violent) conflict is likely, and carry out a CIA to determine how planned investments may affect and be affected by violent conflict. If these tools indicate that investments are highly risky, reconsider the investment, or put in place risk management systems (see Section 2).



Decision 2: You are not sure whether there is potential for conflict in the area where investments are to be made. There are some signs of tension. Steps should be taken to deepen your understanding of the nature of these tensions and investigate the likelihood that they may escalate into violent conflict. Consider undertaking a conflict analysis. If this tool indicates there is a likelihood of escalation, reconsider your investment or carry out a risk assessment and CIA.



Decision 3: There is neither a situation of ongoing violent conflict nor of post-conflict. Furthermore there is little evidence to suggest that there is potential for violent conflict in the short- or medium-term future. Move forward with planned investments, but routinely monitor for any changes in the situation.





Roadmap

Once a decision has been taken to either conduct a conflict analysis or a risk assessment/CIA, the deployment of the appropriate tools should follow.

How is conflict analysis conducted?

Conflict analysis is a process that facilitates a deeper understanding of actual or potential conflict in a given setting. Carrying out a conflict analysis involves two steps:

1. Deploy a qualified expert or experienced team to conduct the analysis

Expertise both in conflict analysis and an understanding of the socio-political environment of the region or country are both essential. Relevant language skills and an understanding of local culture are distinct advantages. Depending on the size of the area to be covered, conflict analyses can be done either by an individual expert or a team of political, social and security experts. Conflict analysis involves: research on the region in question; fieldwork and 'ground-truthing' (which includes interviews with stakeholders, observation, etc.); and a write-up phase. (See Box 7 on typical questions asked as part of a conflict analysis).

Box 7: Typical conflict analysis questions

- What is your understanding of the history and or root causes of current tensions or sources of conflict?
- What are the key factors now fuelling tension and conflict, in the short, medium and long term?
- Who are the key internal and external stakeholders in the conflict? What are their interests and agendas?
- What is government doing to maintain law and order in the area?

2. Review the conflict analysis and draw investment conclusions

It is often useful for the expert(s) to present findings to investment decision-makers and to hold a Q&A session to clarify issues that are unclear and discuss risks and recommendations.

How is a risk assessment system set up?

There is a variety of available conflict risk assessment systems, some of which are already used by international oil and gas companies. A community-focused conflict risk assessment system is the system most appropriate to the needs of the oil and gas industry because a company's presence can lead to, or exacerbate, conflict within or between communities. It is described below.

Setting up a conflict risk assessment system involves four steps:

1. Decide on the geographic scope and purpose of the system

The geographic scope normally covers the communities affected by an investment. Defining this scope is a pre-condition for identifying predictive risk indicators because such indicators will, in most cases, be context-specific. The main purpose of a risk assessment system is to identify areas at high risk of conflict. But there may well be additional purposes that need to be determined. For example, if the system is to be integrated into a risk management strategy, its purpose may also be to monitor the impacts of risk management efforts.

*Governments
grant permits.
Communities give
permission.*

2. Identify key indicators and associated data sources

With the geographic scope determined, it is possible to identify predictive and measurable risk indicators. A conflict analysis will normally help identify these. However, it is also possible to determine indicators through a consultative process with local communities who know the area and understand its conflicts. Such a process can also help to test indicators for sensitivity. Indicators may include the presence of armed groups in the vicinity, disruptions to existing operations, frequency of community agitation, etc. (see Box 8 for sample indicators from the Niger Delta). Identified indicators are subsequently coupled with data sources (e.g. databases held within the company, external reports, etc.) to help score indicators and measure levels of risk.

Box 8: Typical key conflict indicators

- Oil production in vicinity of community
- Corporate unfulfilled promises in the community
- Illegal oil bunkering in the area
- Frequency of community agitation
- Presence of armed groups (gangs, cults, militants) in the area

Adapted from Conflict and Security Risk Assessment (CASRA) system developed by INCAS Consulting Ltd.

3. Design and set-up system

A database that scores indicators and highlights the identified risks should be designed and key personnel trained in its use and function. It is essential that the system is relatively easy to use and meets the needs of the company. It is useful to design and set up the system so that it receives ongoing data from relevant corporate databases and is accessible to key decision makers in the company.

4. Update system data regularly

As risk levels change over time, it is important to update the risk assessment system data regularly. Available database inputs rarely provide all the information that is necessary, so external data updates based on field research may be needed. If the system is to be used to monitor risks as part of a broader risk management process, regular updates may be required more frequently.

How is conflict impact assessment done?

A conflict impact assessment (CIA) involves two basic steps that mix an understanding of the context with the 'nuts and bolts' of the planned investment.

1. Deploy a qualified expert or team of political, social and security experts to do the assessment

If a conflict analysis has already been done, it is possible for a trained expert to sketch out potential impacts both of conflict on the investment and of the investment on conflict. However, such an interpretation will only identify the main risks faced by the investment. It will not be sufficient for developing an effective and ongoing risk management strategy. This requires more detailed field research and consultations by an expert or expert team.

2. Review the CIA and draw investment conclusions

It is often useful to make a presentation to decision makers of the CIA findings and its implications for investments. A 'question and answer' session helps to clarify issues that are unclear and to finalize the recommendations and conclusions of the assessment.

Resources required

Many companies realize that conflict risk assessment is an essential business tool when investments are being considered in countries affected by conflict or weak governance. But how much needs to be spent on gathering and assessing information? The answer, implied in the sections above, is 'not much ... initially'. It is possible to start with a 'light' risk assessment (Above Ground Review) exercise. If this uncovers significant concerns, then a more thorough and potentially more costly assessment will be required. Such an assessment will, in turn, help to determine the risk management strategies required if the decision is taken to invest.

Risk assessment dos and don'ts

DO realize the importance of understanding the conflict environment in which an investment is made or planned. This understanding has the potential to save you time and resources and to protect your reputation.

DO remember that risk assessment tools are not 'science'. They are structured judgments about unpredictable and potentially volatile situations.

DO err on the side of caution. When in doubt, engage basic risk assessment tools (e.g. conflict analysis).

DO link the use of risk assessment to risk management approaches. Just as the assessment will inform your investment decisions, so will it inform risk management efforts.

DO integrate risk assessment into broader community engagement and security processes. This will add value through a greater understanding of local issues and concerns.

DON'T dismiss or postpone dealing with low level conflicts—these can often escalate into more serious situations if ignored.

DON'T consider violent conflict as an external factor that you can avoid when investing in an affected area. Experience indicates that you do so at your own peril.

DON'T assume that dealing with conflict is simple or easy. If risk assessment tools make it seem manageable, be cautious and diligent.

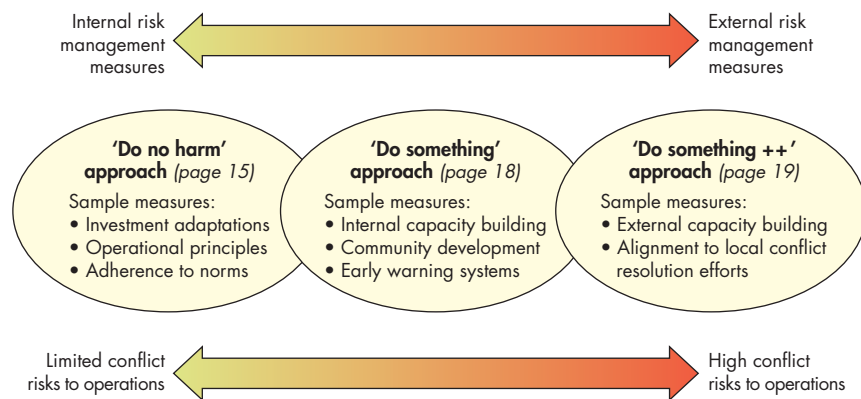
DON'T expect any risk assessment conclusion to remain valid for more than a short period of time. The dynamics of conflict, especially violent conflict, are rarely static. Risks and opportunities can change quickly.

Section 2

Guidance on risk management

A range of risk management approaches can be taken in conflict situations (whether potential, actual or post-conflict). These approaches range from ‘light’ (often internal) measures to more intensive (often external) initiatives. The former will be required in situations where the risk posed by conflict to operations is relatively low. The latter will be necessary in situations where the potential impacts of conflict on operations are significant (see Figure 2).

Figure 2: Range of risk management measures



Where to start

Always start from within, by looking at how operations (old or new) and corporate policies and practices affect the dynamics of a conflict. In practice, this means looking at established policies and practices through a ‘conflict lens’ in order to ‘do no harm’ and not exacerbate or incite conflict. Then move to measures outside the company.

Roadmap

The ‘do no harm’⁴ approach

A ‘conflict lens’ requires that all operational decisions (hiring, compensation, security, etc.) should be considered in the light of six questions related to impacts that increase or decrease the likelihood for conflict. In the following framework, these six main questions are supported by examples that can either increase the likelihood of conflict (C) or the likelihood of stability/peace (P).

⁴ In the context of this publication, the ‘do no harm’ approach refers to the three stage process companies can utilize for risk management—from ‘do no harm’ to ‘do something’ to ‘do something ++’. The Do No Harm Project, developed by Mary Anderson of CDA Collaborative Learning Projects, is a separate initiative providing guidance to humanitarian and development assistance workers operating in areas of conflict. For more information on this Project, please visit www.cdainc.com.

Figure 3: Using the conflict lens

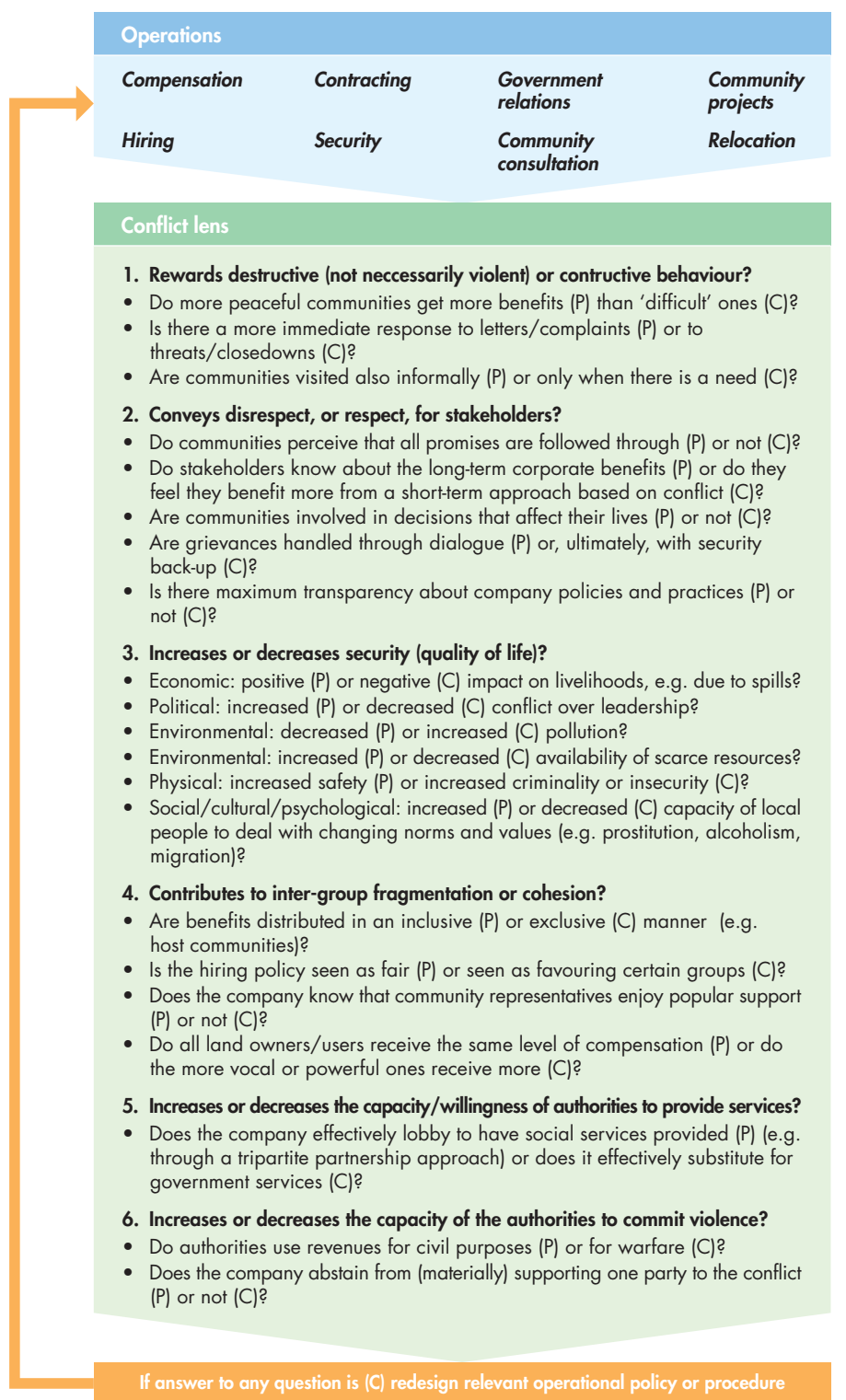


Diagram adapted from *Operating in Areas of Conflict—Guidance Note C6*, Shell Social Performance Management Unit

The 'do no harm' approach also means approaching communities in a proactive way that is sensitive to conflict and potential conflict.

- **Approach communities as partners in preventing and managing conflict**, rather than as a threat or risk. This includes regular informal meetings, transparency on policies and minimizing the use of security personnel to the extent possible.
- **Try to enable benefits to be distributed across communities, not only to 'host' communities.** Most company managers focus on those groups that present the most apparent and most serious threat to the company's operations. But this approach can be counterproductive and is often viewed as reactive. Benefits granted to group A may give rise to grievances among group B. The situation may be further exacerbated if there is a history of prior conflict between groups A and B. In either case this approach has the potential to stimulate conflict between groups A and B, and bring the company into conflict with group B.

Figure 4: Distribution of benefits between communities is essential to avoid conflict

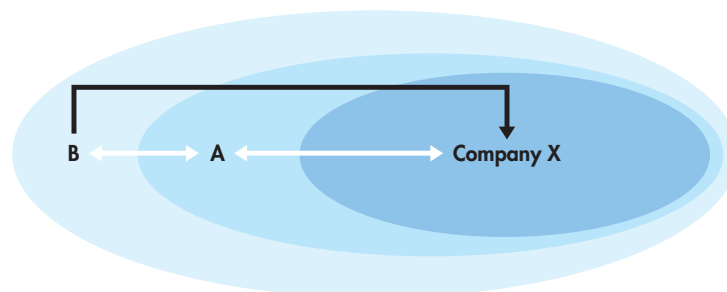


Diagram adapted from *Operating in Areas of Conflict—Guidance Note C6*, Shell Social Performance Management Unit

Adherence to national laws and international norms is a key part of a 'do no harm' stance. This involves integrating, for example, the Voluntary Principles on Human Rights and Security (see Box 9) and insisting on the application of transparent principles of accountability.

Once the 'do no harm' work has progressed, it is possible to consider more robust risk management

Box 9: Voluntary Principles on Security and Human Rights

The Voluntary Principles were developed to guide companies in balancing the needs for safety while respecting human rights and fundamental freedoms. The Voluntary Principles are a tripartite programme involving governments, NGOs, and extractive companies and associations in an open dialogue on security and human rights. All participants recognize the importance of promoting and protecting human rights responsibilities that arise in a security context, and recognize the constructive role that business and civil society can play in advancing these goals. For more information see: www.voluntaryprinciples.org

measures if the risk of conflict is significant. These measures will normally have been supported by findings from risk assessment tools (i.e. conflict analysis, risk assessment, and CIAs).

It is important to stress that risk management approaches that start dealing with the external environment need to be strategic in their approach and based on a solid understanding of the real or perceived issues, especially in the political context. It is also often best to implement such measures in partnership with other agencies (governments, NGOs, and multilaterals) that have their own specific comparative advantages and capabilities.

The 'do something' approach

The 'do something' approach involves a combination of internal and external measures, including:

- **Invest in front-line conflict management capacity.** Those deployed to deal with conflict at the front line should be professionals who are well trained in conflict resolution, facilitation and negotiation. Consider, if it is appropriate, having a community member appointed to liaise with the community on behalf of the company and to help knowledge about the local context to be embedded. Operations personnel need logistical and organizational support to proactively establish a constructive relationship with local stakeholders (as opposed to responding reactively to demands and emergencies). It may be necessary to use short-term professional support in mediating and facilitating conflict management and community engagement.
- **Invest in additional conflict management capacity.** Most operations lack sufficient conflict management expertise and capacity. Because managing conflict often means dealing with recurring issues, it is well worth investing in additional expertise and capacity. Alternatively, you could find yourself reinventing the wheel each time, often getting it wrong and failing to learn from past experience. Investment in conflict expertise and capacity might include, for example:
 - Appointing a contact person within the organization to maintain links with internal and external conflict experts.
 - Setting up ongoing and systematic context analysis linked to an early warning system (see Box 10).
 - Conducting systematic analysis and verification of conflict reports and incident report cards.
 - Establishing the company's capacity to respond to, and investigate, violent events within the legitimate role of business. It is not the role of the company to lead the effort. Governments should take the lead in this instance. (Companies should be prepared to respond to violent, conflict-related events with the same urgency as they respond to other emergencies.)

Box 10: Overview of conflict early warning

Early warning systems are the next level up from risk assessments and involve ongoing and detailed monitoring of high-risk areas/hotspots. In essence, early warning systems involve regular conflict analyses and are based on a local information network in the hotspot area(s). They have a strong response component (often involving community-based and governmental responses) to act quickly on warnings. Early warning systems are in operation in several parts of the world (e.g. North Caucasus, Sri Lanka, West Africa, and the Horn of Africa).



- **Increase conflict sensitivity and develop relations with communities and CSR programmes that are geared to addressing the root causes of conflict—while acknowledging that it is not necessarily the role of companies to resolve the conflict.** If a corporate programme seeks to mitigate the negative effects of its operations or to contribute to the well-being of the host community, it should be conflict-sensitive and address the root causes of conflict. In practice this means using both a conflict analysis to identify the root causes that projects need to address and a CIA to inform the design of projects.
- **Establish an early warning system for areas that may be prone to violence.** There may be areas in a company's zone of operations where the risk of violent conflict is especially high. In such areas, the establishment of an early warning system (see Box 10) could be useful. Such systems provide the necessary warnings to evacuate personnel, secure assets and set the stage for informed preventive responses, both by communities themselves and by third parties (e.g. government, NGOs, etc.). A number of current systems designed for oil and gas companies enable a proactive and non-violent response to potential outbreaks of violence.

The 'do something ++ (plus-plus)' approach

In situations where the potential or actual impact of conflict on operations can be significant, a more substantial engagement with wider conflict issues may be required. Such work will often be political in nature and therefore politically sensitive. There are, however, some alternative approaches that can be explored in response to such situations as part of a 'do something ++' approach.

- **Build external conflict management capacity.** The ability of any society to resolve conflict peacefully depends on the strength and skill of national institutions and skilled individuals. Building external conflict management capacity is therefore important. How this is achieved depends on the context. It may include: supporting national conflict management training institutes; study tours for local or national leaders to other countries that have successfully resolved similar conflicts; funding for local NGOs involved in conflict prevention; and the provision of equipment and training for judiciary institutions.
- **Provide funding and/or technical assistance to available conflict resolution resources.** In most countries or regions affected by violent conflict, there will be local, national and/or international efforts by different parties to resolve it. Whereas direct funding by an oil and gas company for such initiatives may often be inappropriate, there are other indirect ways of providing assistance. For example, companies may consider enabling third parties (e.g. NGOs, think-tanks, etc.) to provide technical help (skills development, basic communication equipment, etc.) to those involved in conflict resolution processes.

Resources required

There is ample evidence that providing large amounts of money to communities can exacerbate rather than reduce conflict. Often the causes of conflicts between companies and communities can be best addressed not by doing more of what has already been done, but by doing things differently. Consultation, knowledge and information about available resources and programmes can be more valuable than a cheque, in that they are more likely to create trust and long-term sustainability in the community.

Resources will be needed to train operations and front-line personnel, to obtain advice on improving the conflict sensitivity of projects, and to set up early warning systems. Further investments will be required to implement the 'do something ++' scenario. However, it is important to consider in your cost calculations how much can be saved through research and relatively small investments in preventive action, when measured against the money spent 'fixing the problem' once things have gone wrong.

Risk management dos and don'ts

DO invest in understanding the issues, and be strategic in any risk management process. A set of isolated, uninformed and uncoordinated measures is unlikely to be effective and may, in fact, do more harm than good.

DO invest in building capacity among your operations and front-line personnel to manage conflicts effectively and sensitively.

DO work in partnership with other stakeholders—other oil and gas companies, government or multilateral agencies, and NGOs. Sharing the burden brings in more expertise and shares responsibilities between those parties who must work together if conflict is to be avoided and peace achieved.

DO understand that a strategy of constructive and ongoing engagement is a vital component of preventing company-community conflicts.

DON'T forget that the management of risks associated with violent conflicts often involves politics. Be careful—and don't be naïve.

DON'T leave space (for example by not engaging in conflict management or by engaging too late) for opportunistic outsiders to manipulate local stakeholders and host communities. Take the time to research all the stakeholders and issues no matter how small or insignificant they may appear.

DON'T use disproportionate deterrent measures, such as increasing security measures or arming guards, to counter expressions of community anger or grievance. Spend time listening—there will almost always be other solutions!

Section 3

Further advice

Selected agencies involved in providing advice on corporate engagement in conflict situations:

CDA Collaborative Learning Projects*: www.cdainc.com

Forum on Early Warning and Early Response—Eurasia (FEWER):
www.fewer-international.org

International Alert*: www.international-alert.org

International Conflict and Security (INCAS) Consulting Ltd.: www.incasconsulting.com

Useful websites on conflict risk assessment and management tools:

Berghof Centre for Constructive Conflict Management: www.berghof-center.org

Beyond Intractability: www.beyondintractability.org

CommDev: www.commdev.org/section/tools/conflict_management

Conflict Prevention and Post-Conflict Reconstruction Network:
<http://cpr.web.cern.ch/cpr>

Conflict Sensitivity.org*: www.conflictsensitivity.org

Eldis—Conflict and Security Resource Guide: www.eldis.org/conflict

Oslo Forum: www.osloforum.org

Organisation for Economic Cooperation and Development/Development
Cooperation Directorate*: www.oecd.org/doc/conflict

United Nations Global Compact: www.unglobalcompact.org/Issues/conflict_prevention

Resource guide

For a more comprehensive assessment of tools available, please visit the IPIECA website at www.ipieca.org/activities/social/social_publications.php. The *Tools Resource Guide* includes information such as a summary of the tool, highlighted benefits and identified limitations, and will be updated regularly. References above marked with an asterix (*) are reviewed in the *Resource Guide*.



Section 4

Case studies

Case study 1: Nigeria

Oil and Community Relations in the Niger Delta

The Niger Delta has long been the scene of complex struggles involving federal and state governments, local communities, regional ethnic groups, armed militants and criminals, and oil and gas companies. In the 1980s and early 1990s, the campaigning of the environmental activist Ken Saro Wiwa drew international attention to the region. Saro Wiwa became a symbol of resistance to the military government of Sani Abacha and his trial and execution in 1993 drew international condemnation.

Despite the restoration of civilian government in Nigeria in 1999, the situation in the Niger Delta has continued to grow more challenging. In some areas the threat of violent conflict has resulted in regular suspensions of operations and forced large volumes of oil and gas production to be shut in.

Poverty, high youth unemployment, stressed community leadership structures, perceptions of inequality in revenue allocation, corruption, rising militancy and criminality all contribute to a complex web of interconnected conflicts. Improving the quality of governance in the region remains a major challenge.

Communities in the Niger Delta have resorted to using violence and intimidation to shut down the operations of oil companies, as part of a strategy to press home their demands for development assistance or compensation. Armed militants acting on their own initiative, or on behalf of communities or other political actors, increasingly target oil and gas companies by kidnapping foreign oil workers, stealing crude oil, or staging attacks on infrastructure.

This case study examines the ways in which Shell and other oil companies seek to mitigate the risks associated with the ongoing conflict in the Niger Delta. The operating environment remains dynamic, and finding answers to these dilemmas requires constant re-evaluation.

The operations

Nigeria has been producing oil for more than 60 years. Most of this production takes place in the Niger Delta region. Today Nigeria produces more than two million barrels of oil per day—mostly through foreign oil companies operating in joint ventures with the federal government. Through joint venture arrangements, the government takes the lion's share of the profits from oil. Revenues are distributed between the federal government and Nigeria's 36 states, according to a formula set out by law.

The exploitation of the Niger Delta's oil and gas involves several of the world's major oil companies as well as numerous smaller ones. Between them they operate a vast network of wells, flow stations, pipelines, gas plants and terminals. Oil companies pay royalties and taxes to the government in addition to employing tens of thousands

of local workers and making significant voluntary and statutory contributions to the development of local communities.

The region

The conflicts in the Niger Delta are fluid, complex and often interconnected. They include long-standing, unresolved conflicts between and within local communities; between larger regional ethnic groups such as the Ijaw, Itsekeri and Urhobo; and between these groups and the government. The rise of militant and criminal groups, and the way in which some local political actors have sought to manipulate these forces, further compounds these challenges.

Direct conflicts with oil and gas companies include: the seizure or destruction of infrastructure; kidnappings and attacks directed at company employees; and widespread theft of crude oil from pipelines (known locally as 'bunkering'). Crude oil theft has been a contributing factor in increasing the flow of arms into the Delta. High unemployment levels aid the recruitment of young men into these gangs. Often it is impossible to distinguish between politically motivated militancy and outright criminality.

Community development efforts by oil and gas companies have sometimes contributed to these conflicts unintentionally through certain policies and practices. For example, the ways in which companies have designated host communities for installations, awarded contracts, decided compensation and managed the grievances have often served to exacerbate problems, rather than to prevent them.

Issues facing oil companies in the Niger Delta

● **Inequity: revenue sharing and corruption**

- **Issue:** Revenue sharing is a highly contentious issue in the Niger Delta. Since 1999, 13 per cent of oil revenues have gone directly to oil-producing states in the Delta. But the people of the Delta argue that this is not enough for a region that produces more than 90 per cent of the nation's oil and gas. They are frustrated by the lack of support from other parts of the country for their demand for a greater share of the oil revenues. Additionally, lack of transparency over the distribution of oil revenues in the oil producing states is a pressing issue.
- **Ways forward:** Although revenue sharing at the national level is a matter for Nigeria's political system, the oil industry is taking steps to promote greater transparency in regard to the revenues it pays to the government. With the support of oil companies, the federal government has signed up to the Extractive Industries Transparency Initiative (EITI) and publishes all revenue payments it receives, as well as making public how much it allocates to states and local governments. The distribution and use of revenues by states and local governments remains subject to concerns about transparency, in part

because the federal government lacks the constitutional right to hold states accountable for the revenues they receive.

● **Security**

- **Issue:** Oil companies rely on government security forces for the protection of personnel and facilities. The armed forces and police often lack the resources and training necessary to perform their role and look to companies for support. In some instances there have been concerns about the security forces operating below international norms and standards. Some oil companies have been criticized on account of the activities of government security forces guarding their operations, over whom they often have little direct control.
- **Ways forward:** Oil companies have responded by signing up to the Voluntary Principles on Security and Human Rights—a cross-industry initiative that provides guidance on how to minimize the risks of human rights abuses by public and private security forces. Shell is also in the process of providing its staff with human rights training, with the aim of promoting knowledge of human rights and conflict resolution in their interaction with communities.

● **Community development: managing social expectations and supporting the state**

- **Issue:** Achieving sustainable economic and social development is a key factor in resolving conflicts and improving lives of the people in the region. Companies recognize this and are contributing to national development efforts.

However, they face a number of issues. The quality of government intervention in development can be improved, and the Nigeria Delta Development Commission (tasked with development of the region) claims that it is not fully empowered to perform its role. In some parts of the Niger Delta, the absence of government development activities leads to companies being regarded by communities as the primary provider of development assistance. Competition among communities for projects from oil companies also leads to conflicts.

NGOs frequently criticize company-run development projects on grounds that they are unsustainable or fail to meet the social and economic needs of the people. But there is increasing recognition that the primary responsibility for delivering economic development lies with the state. Oil companies can support this effort, but cannot substitute for it.

- **Ways forward:** Oil companies are responding to this dilemma by defining their role in development more clearly, and by seeking ways to strengthen the capability of government and civil society to take responsibility for economic development. Companies are also re-examining the way in which relationships with communities are structured, so as to manage expectations and avoid actions which may inadvertently lead to conflict.

Conclusion: lessons learned

The Niger Delta is an example of a region in which conflict has significant implications for oil and gas operations. It is important for companies to have a full understanding of the historical context of the region, and specifically in the intricate and often discordant relationships between the many different actors in the Delta.

Over the past few decades, Shell and other companies in the region have learned important lessons that help inform and improve their dialogues and relationships with stakeholders in the Delta. However, the road ahead is still fraught with many issues, and companies have to prioritize and set realistic goals for their operations. In this context, oil companies take steps to:

- fulfil their duty to protect staff and assets;
- manage the issues of working with state security;
- minimize local impacts on people and the environment; and
- support the efforts of government and civil society to assume their responsibility for promoting economic development.

Although the issues are numerous and long-term in nature, the commitment of companies to finding solutions remains strong. The aim of this case study is to highlight the variety and complexity of the issues in the Niger Delta, rather than attempt an in-depth detailed analysis.

For more information:

www.shell.com/home/content/nigeria/about_shell/issues/security/security.html

Case study 2: Colombia

Working with NGOs to Implement a Conflict Sensitive Approach in La Cira

The four-decade old conflict in Colombia is by far the worst in South America, and has left thousands of civilians killed and millions displaced from their homes. The complex conflict involves state forces that have the mandate to protect people and institutions. The conflict mainly involves government forces, paramilitary groups such as the United Self Defence Forces (AUC), and leftist guerrillas, principally the Revolutionary Armed Forces of Colombia (FARC).

The conflict is fuelled by high levels of rural poverty and a drugs trade which not only helps to finance the arming of paramilitaries and guerrillas but, through corruption, can also endanger the transparency of institutions including the judiciary and the security forces. The economic impact of the conflict is also dramatic because of economic instability and inequality, undermined economic and social development, and deterred investment. However, despite the conflict the governmental institutions have shown remarkable resilience, and strive to sustain democratic values through elections, separation of powers and an independent judiciary.

Oil and gas companies, however, have invested heavily in Colombia because they are attracted by the country's significant carbon energy reserves. The issue for these companies is how to operate in an environment where the protection of assets and people, and the presence of illegal armed groups, might create human rights risks for employees and communities.

This case study examines the approach of the Occidental Oil Company (Oxy) to mitigating the risks of operating in a conflict-prone region by partnering with NGOs. By carrying out an extensive risk assessment, this partnership was able to identify systemic strengths and weaknesses in the policies and practices of the company as well as in the external environment, to establish continuing assessment procedures, and to build constructive relationships with key stakeholders.

The region and operations

A peace-building process in the early 1990s led to the demobilization of smaller guerrilla groups and an overall decrease in violence occurred in the early 2000s after the election of President Alvaro Uribe. However, the political situation in Colombia is still highly unstable and volatile. The rebel groups, labelled as terrorists by the government and the USA, employ tactics of threats and intimidation against civilians. Kidnapping is still a high risk.

Oil is one of Colombia's leading exports. Several leading international oil companies are present in the country, including Oxy, Repsol YPF, Petrobras, Chevron, BP and ExxonMobil. The oil industry, along with other foreign investment, has been targeted by illegal armed groups for a variety of reasons, including the ideological symbolism

of sabotaging the operations of multinational companies and, potentially, depriving both regional and national governments of strategic sources of revenue from royalties. The companies, including Oxy, have been frequently targeted by such illegal groups. For example, a pipeline transporting oil from the Caño Limón field to the coast has been a target for many acts of sabotage by guerrilla groups since it began transporting oil in the mid-1980s. At one point the pipeline was shut down for almost nine months in one year. Oxy employees have also been targeted for attacks and kidnapping.

In 2005, Oxy signed a new agreement with Ecopetrol, the Colombian national oil company, for an enhanced oil recovery (EOR) project in the La Cira-Infantas field, located in central Colombia. The region of the La Cira field is seriously affected by conflict and by the intimidation tactics of the illegal armed groups. It is the first oil region in the country where the economic opportunities are mostly related to oil industry. Illegal groups had been highly influential in the past decades, with the region being the scenario of clashes between guerrillas and paramilitaries.

Issues facing oil companies in La Cira

Before commencing operations at La Cira, Oxy and Ecopetrol carried out an assessment which identified critical issues that would affect the sustainability and success of the project: security, human rights and social/economic issues; managing economic opportunities; and addressing safety hazards and land issues. According to the assessment, proactively addressing these issues would encourage a healthier relationship with local communities and reduce the risk of illicit intervention from armed groups.

● **Security and human rights**

- **Issue:** One of the key issues facing Oxy was how to integrate strong human rights principles throughout operations at La Cira. In addition to private security forces protecting the project site against attacks, the Colombian military has a strong presence in the area to guard national economic interests. In the past, conflict between the Colombian military and the illegal armed groups have led to serious human rights abuses. The main victims were local civilians, especially those living around oil fields. Maintaining principles of security and human rights is vitally important for local people and for the security forces (both private and governmental).
- **Ways forward:** As a signatory to the Voluntary Principles on Security and Human Rights, Oxy prioritizes training on these principles throughout its operations in La Cira. However, training alone for security forces was only one way to manage risk. In order to identify and highlight more complex social issues and create an inclusive risk management programme, a thorough risk assessment was carried out. In 2006, Oxy and Ecopetrol partnered with two non-governmental organizations (NGOs)—London-based International Alert (IA) and Colombian-based Fundación Ideas Para La Paz (FIP)—to conduct such an assessment. IA worked closely with FIP and the

companies to utilize IA's Conflict Sensitive Business Practices tool (CSBP) in the context of La Cira. The CSBP allows companies to apply a two-way risk and impact analysis. An initial pilot application of the CSBP was carried out to assess the human rights and social risk issues in the area. A wide range of stakeholders, including Oxy's and Ecopetrol's staff, managers and field workers, and local communities, participated in extensive workshops, training and interviews. The culmination of the pilot was a risk assessment, providing valuable analysis and detailing where future stakeholder consultation would be beneficial. With regard to security and human rights, areas identified for additional work included further implementation of the Voluntary Principles and simultaneously addressing other social, environmental and safety issues. One of those which shows the extent of the engagement with stakeholders was the substitution of illegal connections to oil wells to obtain cooking gas, for a community-led propane gas utility. The lesson here is that security and human rights issues need to be addressed in a holistic fashion, finding common ground to the company and community concerns.

● Social issues

- **Issue:** La Cira has been an active field for many years and the local communities have grown accustomed to the presence of the national oil company. Yet, even though the presence of Ecopetrol had meant significant contributions, sometimes even substituting state responsibilities, the presence of a new foreign company meant a new set of issues—among them the interest in making the company a target of attacks and threats. It also meant the introduction of new environmental and safety standards which brought changes to the decades old interaction of the NOC with the local community. All these new issues led to changes in established patterns of relationships which had previously been capitalized on by illegal actors. Thus, maintaining an open dialogue with a range of stakeholders, especially local communities, is helping companies identify existing concerns, anticipate risks and deal effectively with problems that may arise.
- **Ways forward:** As part of the CSBP assessment, an extensive stakeholder consultation was carried out. In addition to the security issues identified above, specific issues identified as priorities for the communities were: limited economic opportunities; the management of land issues with neighbours; and access to utilities. This analysis enabled Oxy and Ecopetrol to develop a new approach to implementing community investment programmes based on a comprehensive understanding of the social issues, where security issues are linked with other social, institutional and economic variables. The interface of security, human rights and social issues can only be understood by detailed and thorough stakeholder engagement as proposed by the CSBP toolkit.

Conclusion: lessons learned

This case study demonstrates that carrying out risk assessment and engaging with local stakeholders can bring real benefits in terms of reducing risk and facilitating risk

management. The consultation process and risk analysis which Oxy and Ecopetrol conducted in partnership with IA and FIP were extremely valuable in determining both the overarching issues, and the more subtle community concerns that were not immediately evident as significant risk factors. In particular, several key lessons emerged:

1. The application of systematic risk assessment tools, such as CSBP, enables companies to think both long term and short term, and adapt accordingly. For Oxy, the La Cira experience has resulted in the introduction of risk analysis and stakeholder engagement on an ongoing basis.
2. Managing community expectations through ongoing dialogue helps all stakeholders understand their roles and responsibilities. When companies lack transparency and fail to address local grievances, the risk is that communities will build up resentment against the companies. This allows criminal and/or militant groups to exploit community grievances, and leads to rapid escalation of conflict including disruption to operations or attacks on facilities and staff.
3. When operating in areas of potential conflict, it is essential to take a comprehensive approach to risk management. As seen in this case study, risk can be greatly reduced by implementing conflict-sensitive policies. However, the application of such policies alone is not a substitute for thorough and thoughtful understanding of regional issues. Each conflict situation is different, and even within a region conflicts often shift. Companies should therefore monitor conflict dynamics continually, maintain effective and ongoing assessment, and consult with stakeholders on a regular basis.

For more information:

www.international-alert.org and www.oxy.com

Case study 3: Indonesia

Managing risks of low-level community conflict in Tangguh

The conflict in West Papua, also known as Irian Jaya, dates back to 1963 when the former Dutch colonial territory was annexed by the Indonesian state after a brief transitional period under UN mandate. Since 1963, Papua (consisting of the provinces of Papua and West Papua) has received international attention as a point of political unrest.

The political environment has been marked by periods of tension and conflict between the long-running secessionist Free Papua Movement (OPM) and the Indonesian military. The government maintains a military and police presence in the province.

The extractive industry has been criticized by locals, NGOs and the international community following controversial projects which have been seen as not benefiting local communities and indigenous peoples. Following these extractive projects there was scepticism and wariness surrounding activities by BP who acquired a major stake in a Liquefied Natural Gas (LNG) reserve offshore of Bintuni Bay in the westerly part of the island and began construction in 2005.

Overt conflict and political unrest, so far, have not been major issues in the Tangguh area where BP's LNG project is located. Instead, low-level community conflicts, local protests and unmet expectations have emerged as the main concerns for the company. This case study outlines some effective measures on dealing with low level community conflicts, and the importance of open and frequent dialogue with local community stakeholders as a key to effective risk management.

The region

The Tangguh Project is located in the crook of Bintuni Bay on the coast of West Papua. This location is considerably removed from the highland region where reports of human rights abuses, conflict with security forces, and indigenous rights have been important issues.

One of the main issues of working in Tangguh is the region's remoteness. There is limited exposure to the outside world, little or no basic amenities such as electricity and telephones, limited transportation and few roads. Consequently, provision of government services is very limited, economic and commercial opportunities are scarce, and economic development is minimal.

Historically the relationship between the people of Papua and the Indonesian central government has been complex. Prior to the reform era, there were strong feelings among the local people of detachment from the central government in Jakarta. As the country entered the democratization era the political climate has changed. Regional autonomy and improved lines of communication between the government and the people of West

Papua have brought some improvements in the relationship. However, the distance—physically, socially, economically and politically—contributes to the disempowerment and disenchantment of local communities.

While this part of West Papua is not prone to violence or open conflict, the isolation and political detachment from both the central and local governments have combined to produce a feeling of aggrievement. This, in turn contributed to a feeling of initial distrust towards BP and the other extractive companies.

The operations

BP, which has operations in other parts of Indonesia, launched the Tangguh LNG project in the early 1990s. BP is the operator holding a 37 per cent working interest. Its partners (Mitsubishi, Nippon, Kanematsu and LNG Japan and CNOOC from China) hold the other 63 per cent. The government of Indonesia participates through a production-sharing arrangement, which gives it a percentage of the project's net profits in the form of taxes and other entitlements.

From the very outset of the Tangguh Project, BP has carried out comprehensive community consultations. These consultations have allowed BP to identify communities' main concerns and needs, to assess the potential risks, and to develop a strong programme of social and economic development to manage and mitigate any risks to the project and to local communities that may arise.

Issues facing oil companies in Tangguh

● **Security**

- **Issue:** The main security issue facing the Tangguh operations is the potential for disputes between security forces, both those acting on behalf of the company and operating independently such as the local police, and local communities. In particular, there is the risk that security forces (both governmental and private) might use excessive force to deal with security incidents, therefore committing human rights abuses. A related issue is the lack of dialogue and engagement between communities and security forces. This lack of communication intensifies the climate of misunderstanding and distrust.
- **Solution:** While acknowledging that public security forces are under the jurisdiction of the Indonesian government, BP insisted from the start that all security forces operating in the areas of the project should recognize and respect human rights. BP has provided human rights training to support this mandate. BP also implements a strict no-weapon policy for private security guards and has strictly avoided providing weapons to government security forces. The company also recognized an opportunity to work with the local security (military, police and private security forces) and local communities to create channels of communication between the security forces and the local population, and to introduce community policing methods. Their proactive approach was multi-layered—a

combination of community empowerment techniques, rigorous training of the security forces in human rights, planting the concept of ‘Community Policing’, and working in partnership with all stakeholders, including civil society groups. The common goal was to build good relationships between the stakeholders involved in the project and open dialogue to minimize the potential for conflict.

One example of this has been the Integrated Community-Based Security (ICBS) model, which seeks to reinforce security and respect for human rights through partnerships involving local communities, the police and other stakeholders. ICBS promotes shared responsibility for all stakeholders in maintaining security; local communities, government members and security forces all have a role to play in resolving conflict. As part of this effort, BP integrated the Voluntary Principles on Security and Human Rights into a Memorandum of Understanding—called the ‘Field Guidelines’—agreed with the local police. The Field Guidelines are reinforced through training for security personnel, especially in human rights and conflict management. As part of the training and community relations building effort, BP sponsors an annual joint training programme for conflict prevention and mitigation. The annual event lasts five days, and includes members from the government, NGOs, community, media, security forces and BP staff. BP also helped to establish a working group forum, as a mechanism through which community members identify security issues, propose solutions to the local police and expedite their resolution. This forum empowers communities to understand their legal rights, and also assists the police to react quickly, effectively and sensitively to emerging problems.



● **Managing community expectations**

- **Issue:** One of the common issues facing extractive companies when starting new operations anywhere in the world is how to manage community expectations of what benefits they will receive from the project. In the case of Tangguh, the low-level conflicts that can arise have origins in dissatisfaction or disillusionment. Community protests range from stealing keys, to blocking the road or protesting in response to the lack of jobs and other grievances against the company. Although these conflicts are low-level, a port blockage, for example, can interrupt operations and can be extremely costly to the company. Hence, the business case for managing these risks and addressing the issues before they escalate into conflict is clear.
- **Solution:** BP has addressed this through community consultations and an extensive Integrated Social Programme, which has been in place since the very outset of the project. BP Indonesia has a team of specialists to implement wide-ranging social development programmes and, where appropriate, to integrate aspects of the programme into project operations. Meetings are held on a daily basis with community, local government, and civil society members, to continually monitor, assess and address local concerns.

● Influx management

- **Issue:** Another dilemma for extractive industry operations worldwide is how to deter the migration of job-seekers to project sites. This 'honeypot' phenomenon can cause tension between the local communities and the incomers as they compete for benefits from the project such as jobs, business, etc. The influx of incomers also leads to the establishment of informal economies which can include the illegal sale of drugs and alcohol, prostitution, etc., which can give rise to social problems and can exacerbate crime and conflicts.
- **Solution:** The Project addressed the potential influx of jobseekers through a number of measures:
 - i) A closed camp was created for the project. Only authorized personnel are able to access the Tangguh LNG site and it is an entirely cashless facility. This serves to discourage informal businesses from developing around the site.
 - ii) The Project established a dedicated In-Migration Mitigation Control Division. The purpose of this Division is to monitor and actively assist the local government manage in-migration.
 - iii) The Project adopted a recruitment strategy whereby hiring centres are established at regional growth centre areas. No hiring is conducted at the worksite, except in the resettlement villages.
 - iv) BP invested in an innovative approach to regional development known as the Diversified Growth Strategy (DGS), which channelled economic development to outlying cities. This is designed to spread the benefits of BP's business to other economic hubs in West Papua and to draw direct attention away from the centre of operations.

Conclusion: lessons learned

Several years into implementation of BP's regionally tailored socio-economic programmes, there are already signs of improvements in prosperity, stability and dialogue in the Bintuni region. Originally, it was difficult to persuade the Indonesian government to back the Integrated Community Based Security Programme and training. However, the police and government are now highly supportive of the Programme. The main lesson of the experience of Tangguh is that dialogue and communications between all stakeholders are essential ingredients of successful conflict management. Companies need to be clear about their ultimate objective. They need to understand the business case for mitigating conflict risks. They need to be willing to be flexible during the process. They need to be realistic about what can be achieved within a given time period. And they need to appreciate that implementing fundamental changes in behaviour, for example integrating respect for human rights into the security forces, takes time.

For more information:

www.bp.com/subsection.do?categoryId=9004752&contentId=7008843

Annex 1

Application of tools throughout project phases

Stage	Tools that can be used in a staged approach	Other tools that businesses often use
Exploration Pre-investment/ pre-operation	<ul style="list-style-type: none"> • OECD Risk Management Tool for Weak Governance Zones • Global Compact <ul style="list-style-type: none"> - Conflict Impact Analysis • International Alert—Conflict Sensitive Business Practices <ul style="list-style-type: none"> - Screening Tool - International Council on Mining and Metals (ICMM) Community Development - IFC/IBLF HRIA Guide • IPIECA Guide to Social Impact Assessment 	<ul style="list-style-type: none"> • Political Risk Analysis • Above Ground Review (page 10)
Pre-feasibility	<ul style="list-style-type: none"> • OECD Risk Management Tool for Weak Governance Zones • International Alert—Conflict Sensitive Business Practices <ul style="list-style-type: none"> - Macro Level Conflict Risk and Impact Assessment - Beginning to use Project Level Conflict Risk and Impact Assessment • IPIECA Guide to Social Impact Assessment 	<ul style="list-style-type: none"> • Political Risk Analysis • Financial, Commercial, Economic, Legal Risk Analysis • Human Rights Impact Assessment
Feasibility	<ul style="list-style-type: none"> • OECD Risk Management Tool for Weak Governance Zones • International Alert—Conflict Sensitive Business Practices <ul style="list-style-type: none"> - Macro Level Conflict Risk and Impact Assessment - Project Level Conflict Risk and Impact Assessment - Flashpoint Issue Papers 	<ul style="list-style-type: none"> • Environmental and Social Impact Assessment • Human Rights Impact Assessment
Construction	<ul style="list-style-type: none"> • Global Compact <ul style="list-style-type: none"> - Risk management once the decision is made to invest • International Alert Conflict Sensitive Business Practices <ul style="list-style-type: none"> - Macro Level Conflict Risk and Impact Assessment - Project Level Conflict Risk and Impact Assessment - Flashpoint Issue Papers • IPIECA Human Rights Training Toolkit • IPIECA Guide to Creating Successful, Sustainable Social Investment 	<ul style="list-style-type: none"> • Environmental and Social Impact Assessment • Human Rights Impact Assessment • Risk Management • Environmental and Social Management Systems • Social Investment Plans • Community Development Plans • Compensation Plans • Resettlement Plans • Indigenous Peoples Plans • Security Personnel Rules of Conduct
Operations	<ul style="list-style-type: none"> • OECD Risk Management Tool for Weak Governance Zones • Global Compact <ul style="list-style-type: none"> - Risk management once the decision is made to invest • International Alert Conflict Sensitive Business Practices <ul style="list-style-type: none"> - Macro Level Conflict Risk and Impact Assessment - Project Level Conflict Risk and Impact Assessment - Flashpoint Issue Papers • IPIECA Human Rights Training Toolkit 	<ul style="list-style-type: none"> • Risk Management • Environmental and Social Management Systems • Social Investment Plans • Community Development Plans • Compensation Plans • Resettlement Plans • Indigenous Peoples Plans • Security Personnel Rules of Conduct
Decommissioning	<ul style="list-style-type: none"> • International Alert Conflict Sensitive Business Practices <ul style="list-style-type: none"> - Project Level Conflict Risk and Impact Assessment 	<ul style="list-style-type: none"> • Decommissioning Plans

Annex 2

Application of conflict assessment and management tools

Project Phase	Low-level conflict situation	Medium-level conflict situation	High-level conflict situation
Phase I: Identify and Assess	<ul style="list-style-type: none"> • AGR 	<ul style="list-style-type: none"> • Conflict analysis 	<ul style="list-style-type: none"> • Conflict analysis
Phase II: Select	<ul style="list-style-type: none"> • CIA 1 (superficial) 	<ul style="list-style-type: none"> • CIA 1 (superficial) 	<ul style="list-style-type: none"> • CIA 1 (detailed)
Phase III: Define	–	<ul style="list-style-type: none"> • Risk assessment system 	<ul style="list-style-type: none"> • Risk assessment system
Phase IV: Execute	<ul style="list-style-type: none"> • CIA 2 (superficial) • Internal risk management measures 	<ul style="list-style-type: none"> • CIA 2 (detailed) • Internal risk management measures 	<ul style="list-style-type: none"> • CIA 2 (detailed) • Internal risk management measures • Early warning system
Phase V: Operate	–	<ul style="list-style-type: none"> • External risk management measures 	<ul style="list-style-type: none"> • External risk management measures

Definitions: Project Phases

Phase 1 (Identify and Assess):

Initiation, appraisal, feasibility, geomatics, well engineering, logistical management

Phase 2 (Select):

Appraisal, concept selection, well engineering, geomatics, logistics management

Phase 3 (Define):

Basis for design, project specification, well engineering, geomatics, logistics management

Phase 4 (Execute):

Detailed design, procurement, construction, commissioning, prepare for operations, well engineering, geomatics, logistics management

Phase 5 (Operate):

Start up, production, maintenance, inspection, management, well engineering, geomatics, logistics management

Definitions: Tools to be applied

- AGR: Above Ground Review
- CIA (superficial): Simple review of conflict impacts based on AGR or conflict analysis and concept selection—followed by modifications and improvements
- CIA (detailed): Detailed assessment of impacts based on conflict analysis and detailed design—followed by modifications and improvements
- Internal risk management measures: Review of policies, procedures, etc. to ensure ‘do no harm’ impacts
- External risk management measures: External actions to manage conflict issues

Annex 3

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About IPIECA and this Guide

A note on IPIECA and this Guidance

IPIECA formed a Social Responsibility Working Group (SRWG) in 2002 to address social responsibility issues including human rights, capacity building and community outreach. This group provides a forum for IPIECA members to share information and enhance understanding of social responsibility issues, challenges and implications for the oil and gas industry. The forum enables the coordination of joint actions such as hosting workshops and the publication of practical guides and tools.

Through the SRWG, the oil and gas sector is proactively addressing new and previously identified risks in the area of social responsibility. The group aims to develop a consistent and credible industry voice on social responsibility issues. In particular, it seeks consensus on the role and boundaries for business in promoting and protecting human rights. The group works to improve industry social performance by sharing good practice and producing guidance, and to ensure that the sector's contribution to economic and social development is recognized.

The SRWG has three main objectives:

1. Enhance members' understanding of social issues.
2. Contribute to, and monitor, external initiatives.
3. Develop tools and guidance to encourage continuous improvement of the industry's social performance.

In 2006, SRWG members identified a need for simple and practical guidance on the risks of operating in areas of conflict, based on the increasing expansion of oil and gas operations into areas where conflict—low-level or outright—is a real issue. Noting that there were already valuable comprehensive guidance tools available, members wanted to produce a more user-friendly field guide that would encourage better use of the principles and practices contained in these resources.

The SRWG's dedicated task force on this issue agreed to develop a brief guiding document giving an overview of the risks associated with operating in areas of conflict and highlighting the business case of why it is an important issue for industry.

The target audiences for this Guide are CSR and Community/Government Relations professionals located in company headquarters, in-country managers dealing with the issues on the 'front line' or who have the potential to, and those tasked with conducting 'above ground reviews' and/or social environmental impact assessments.

While there is a great deal of existing material providing in-depth information on screening and impact assessment in conflict zones, this IPIECA guidance document draws on practical materials as much as possible. The aim of the Guide is to provide a brief overview, which can be read quickly by the target audience, to give a high level understanding of conflict issues, tools available, key elements of risk assessment and risk management, and flashpoint topics to be aware of and/or to avoid, as outlined in the case studies.

The document focuses on raising awareness of business' role in areas of conflict and the risks associated with working in these areas.

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Conflict Guide Task Force

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IPIECA

IPIECA is the single global association representing both the upstream and downstream oil and gas industry on key environmental and social issues, including: oil spill response; global climate change; fuels and products; health; biodiversity; social responsibility; and sustainability reporting.

Founded in 1974 following the establishment of the United Nations Environment Programme (UNEP), IPIECA provides a principal channel of communication with the United Nations. IPIECA Members are drawn from private and state-owned companies as well as national, regional and international associations. Membership covers Africa, Latin America, Asia, Europe, the Middle East and North America.

Through a Strategic Issues Assessment Forum, IPIECA also helps its members identify emerging global issues and evaluates their potential impact on the oil industry. IPIECA's programme takes full account of international developments in these issues, serving as a forum for discussion and cooperation, involving industry and international organizations.

Company members

BG Group	Occidental
BHP Billiton	OMV
BP	Petrobras
Chevron	Petronas
CNOOC	Petrotrin
ConocoPhillips	PTT EP
Eni	Repsol YPF
ExxonMobil	Saudi Aramco
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American Petroleum Institute (API)
Australian Institute of Petroleum (AIP)
Canadian Association of Petroleum Producers (CAPP)
Canadian Petroleum Products Institute (CPPI)
The Oil Companies' European Association for Environment, Health and Safety in Refining and Distribution (CONCAWE)
European Petroleum Industry Association (EUROPIA)
International Association of Oil & Gas Producers (OGP)
Petroleum Association of Japan (PAJ)
Regional Association of Oil and Natural Gas Companies in Latin America and the Caribbean (ARPEL)
South African Petroleum Industry Association (SAPIA)
World Petroleum Council (WPC)



International Petroleum Industry
Environmental Conservation Association