

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

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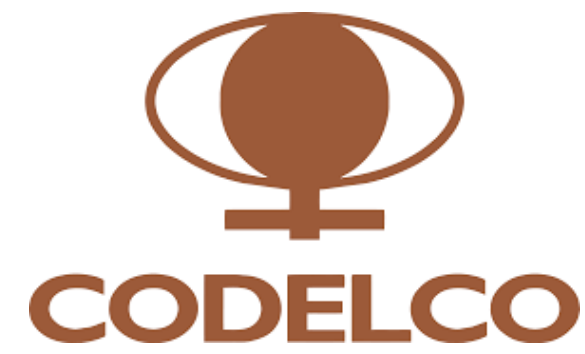
Outline

1. Why SOE transparency and accountability are so important
2. The global energy transition and a changing investment climate
3. Innovations in state-owned enterprise reporting

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Learning from the success stories



Challenges: State-owned enterprises have complex roles



Managing stakeholder demands



Raiding the piggy bank



Political interference



Boundless expectations

Factors which make corruption more likely



Common forms of corruption issues

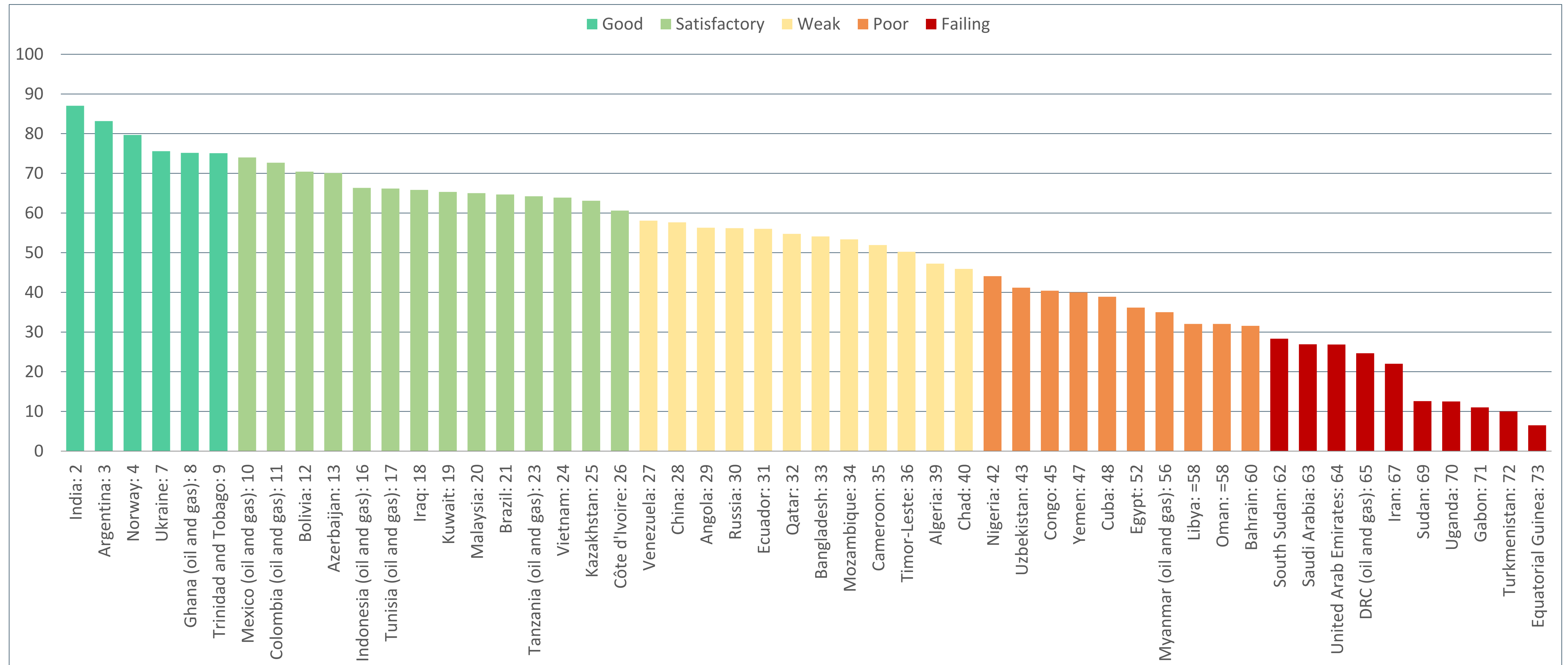
- Bribery or collusion in licensing, contracting or trading deals, often in collaboration with agents and intermediaries
- Favoritism in licensing and contracting
- Bribery to influence SOE regulations and approvals
- Favoritism in the SOE's regulatory activities and approvals
- Officials hold commercial interests in the sector which create conflicts of interest and improperly influence decision-making
- Misappropriation or embezzlement of SOE funds
- Companies or officials unduly influence the SOE's laws and rules

Petrobras: a perfect storm



- Overstretched mandate
 - Commercial: mandatory operatorship in deepwater
 - Non-commercial: fuel subsidies
- Political interference
- Pressure from elite private sector
- Lack of strong corporate controls

Transparency still lacking for many NOCs: the Resource Governance Index



Complementary mitigating measures

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

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Energy Transition: the shift from the use of fossil fuels to avoid climate-related disaster



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

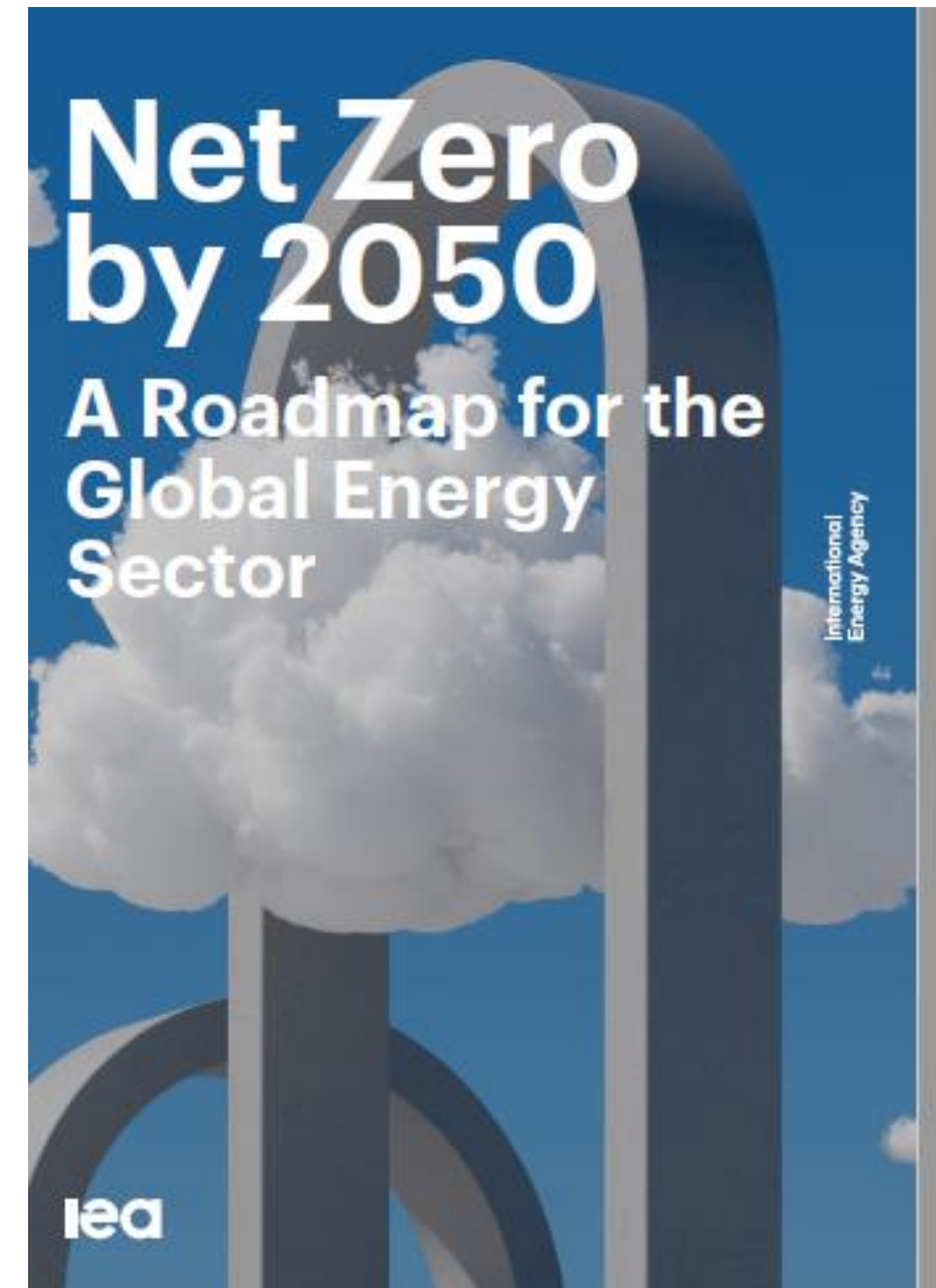
Technological: Dramatic improvements and cost reductions in renewable energy

Financial: investors reorienting resources away from fossil fuels

The climate crisis and the global energy transition requires a dramatic shift away from oil and gas

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

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



(Many) International Oil Companies are revising their expectations downward

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

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

MARKETS | COMMODITIES

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

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

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

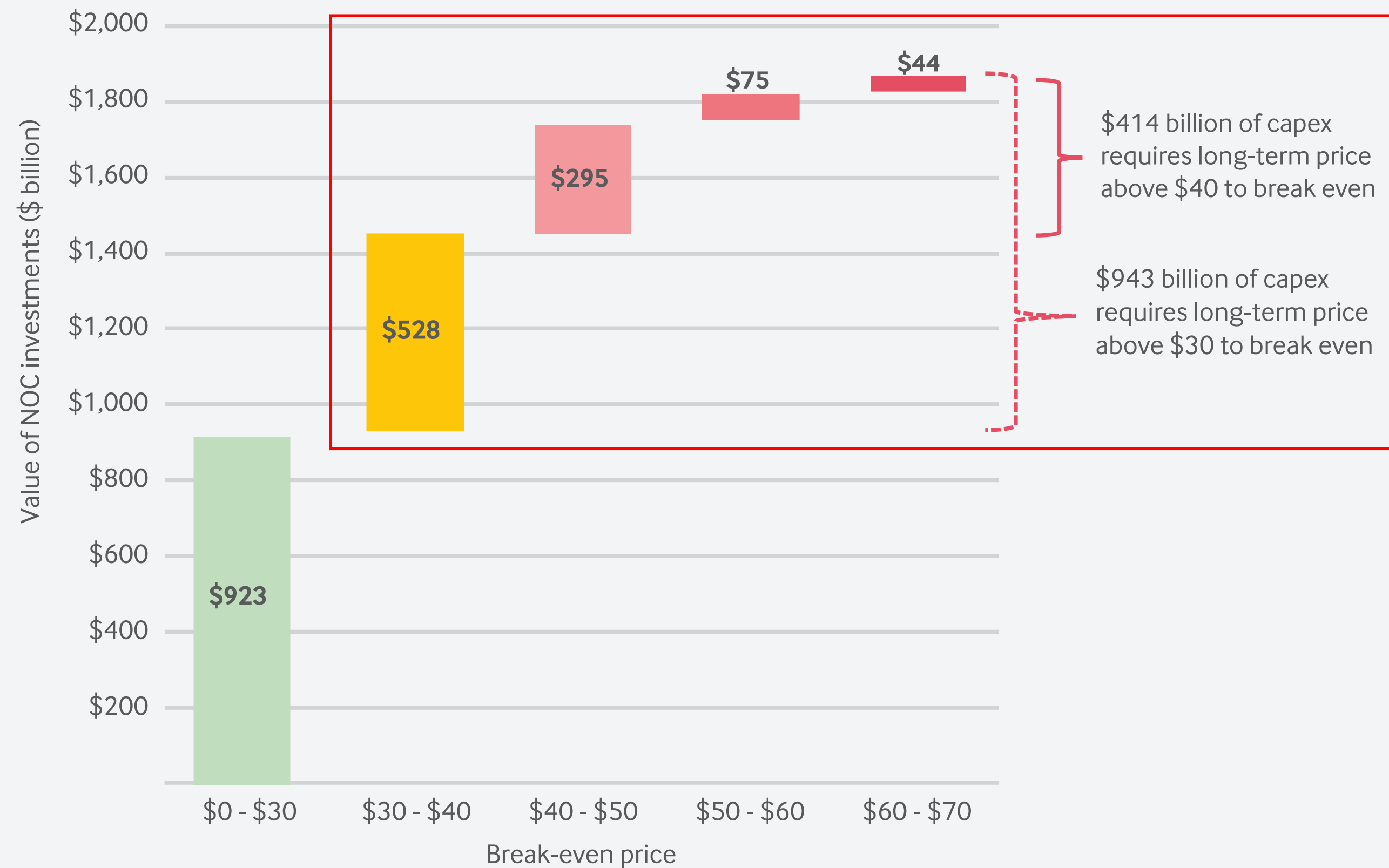
Eni to book 3.5 billion euro asset writedown after cutting price outlook

National oil companies must make investment decisions in an increasingly uncertain environment.

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

This could be disastrous for these companies and their economies.

Value of NOC capital expenditure disaggregated by break-even price range



Strategic questions facing state-owned enterprises

1. What kind of upstream role should the company pursue? What kinds of risks can it withstand in its commercial activities?
2. Is there a role in for the company in evolving markets, such as energy provision?
3. How can the company finance its activity and how should the fiscal relationship between the company and the state evolve?

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

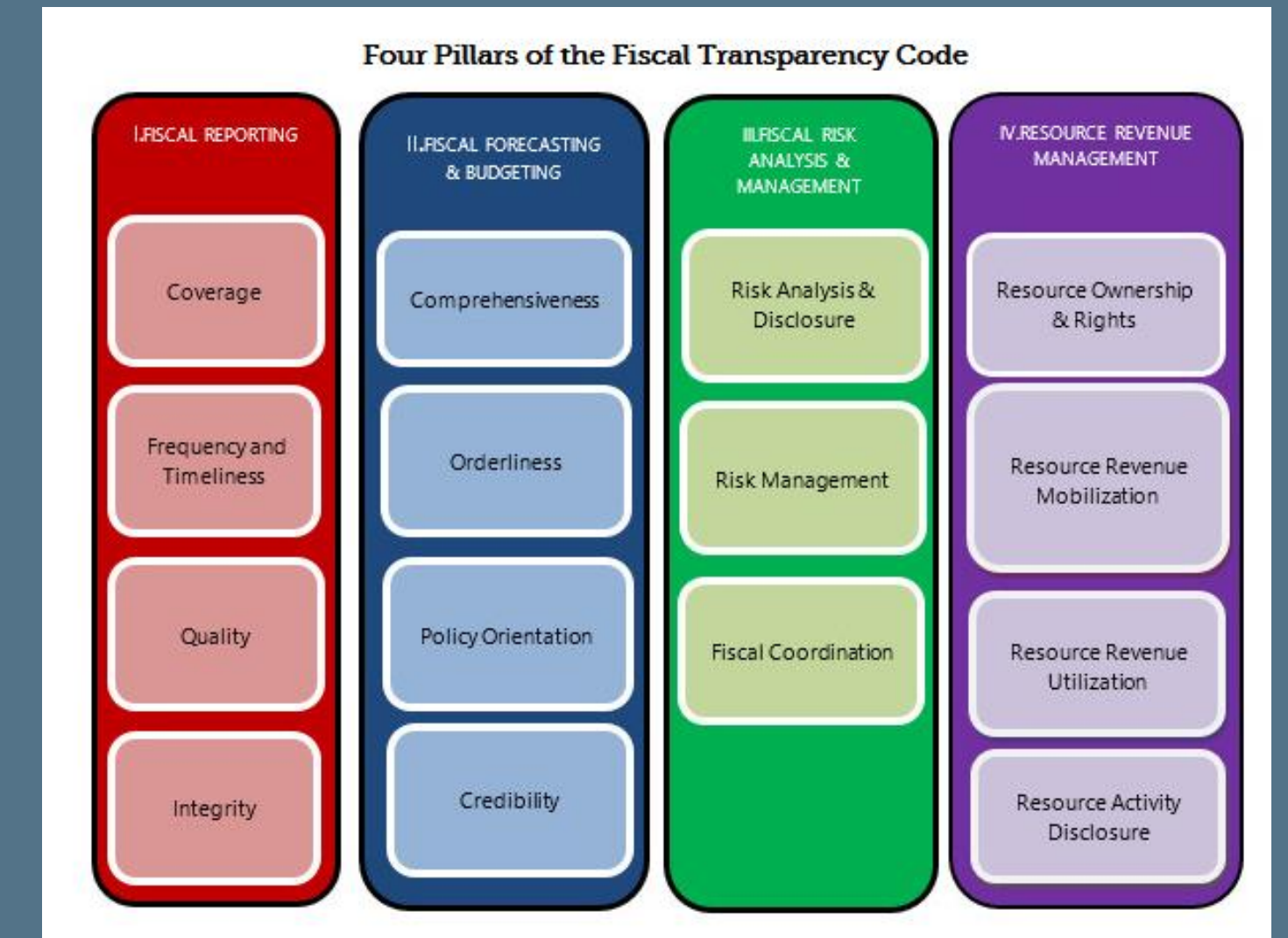
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Changing global standards

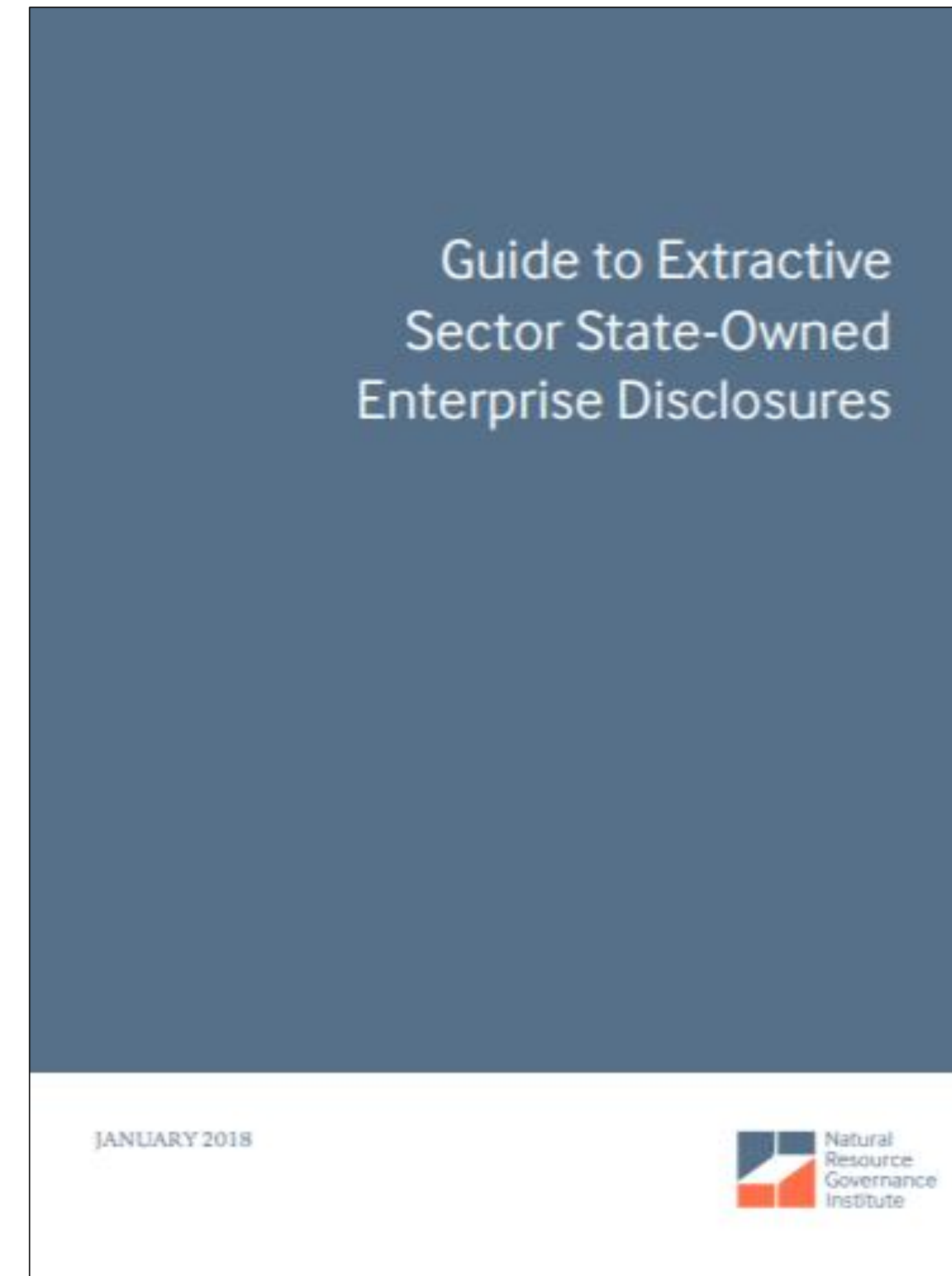


IMF Fiscal Transparency Code - 2019



Reporting innovations among SOEs: 4 C's

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



Energy transition and SOE reporting: EITI innovations

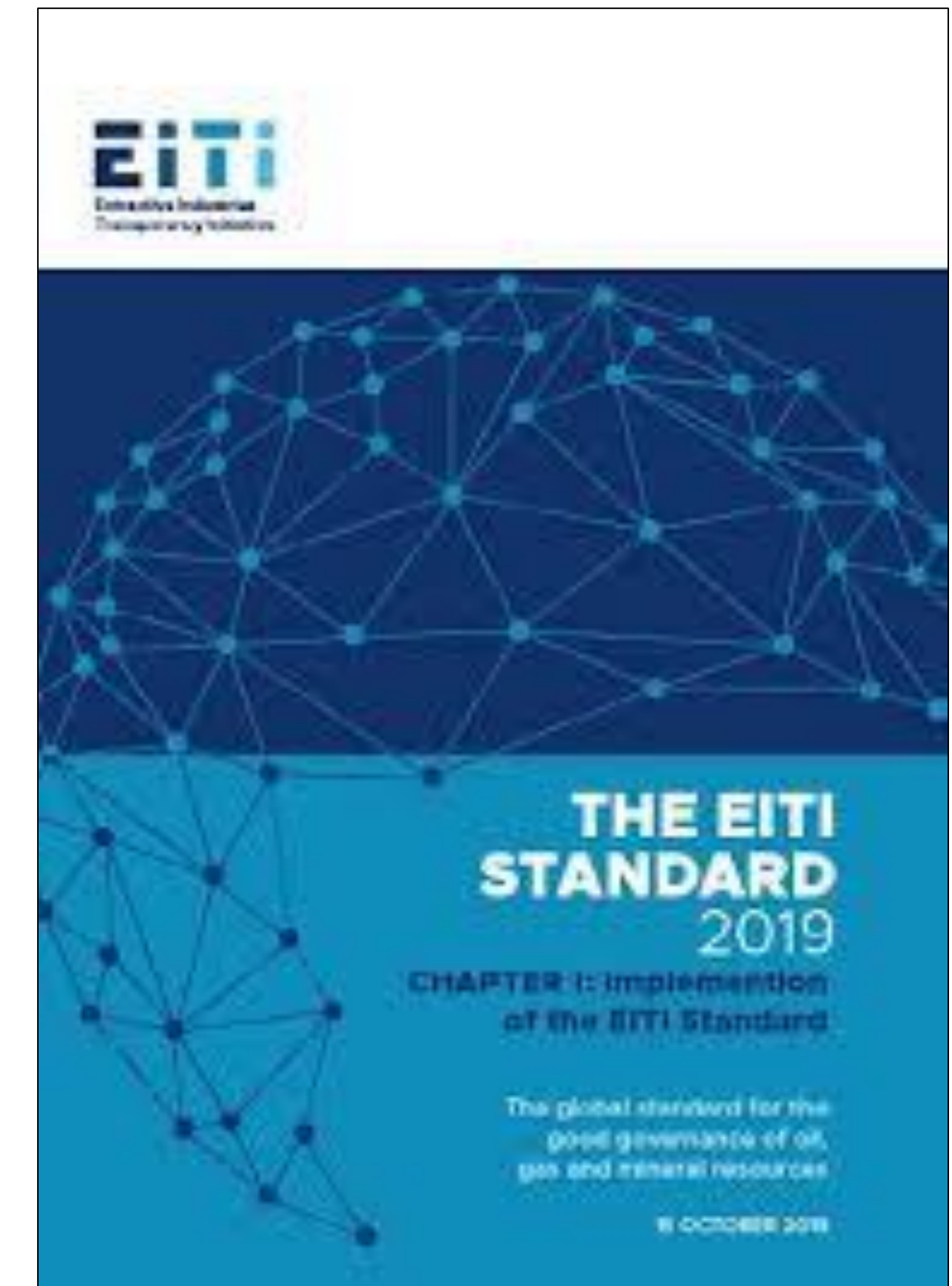
“The transition has profound implications for the extractive sector, and it will not be easy. The EITI can be supportive of the transition, as the robust data gathered to meet its requirements, when published and used responsibly, can advance understanding of transition pathways.”

-Helen Clark, EITI Board Chair

EITI Standard 5.3(c):

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

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



Thank you