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INSIGHT

01 ENERGY ISSUE

Foreword from the CEO

I am delighted to announce the launch of RepRisk Insight, our industry e-Zine that focuses on ESG risk issues in the corporate world. RepRisk Insight marks a significant step in our company's thought leadership as we increase our contribution to the ongoing debate of ESG issues within public policy, compliance and enterprise risk management and the field of not only responsible investment but also the broader landscape of financial risk management.

In the current economic climate, access to capital becomes increasingly difficult; the need to obtain and maintain licenses to operate is imperative. This e-Zine is designed to inform and engage industry leaders with provocative, insightful and behind-the-scenes commentary. Our first publication targets the Energy and Extractive Industries and includes contributions from: Dan Plesch, Director of the Centre for International Studies and Diplomacy, Phil Dickie from WWF, Toni Johnson from the Council on Foreign Affairs and many more.

I hope you enjoy this first edition of RepRisk Insight. The team looks forward to bringing you future editions covering other industry sectors. We look forward to receiving your views and comments.

Philipp Aeby
CEO RepRisk AG

Mission Statement

RepRisk Insight is RepRisk's industry e-Zine that deals with environmental, social and governance (ESG) risk issues facing the corporate world.

RepRisk Insight provides informative, analytical and thought provoking pieces from industry experts on various ESG risk issues. Contributors to the magazine will include industry specialists from Multinational Corporations, Academics, NGOs, International Institutions, Politicians and Trade Associations.

Our editorial mission is to provide readers with informative and engaging commentary, analysis, and behind-the-scenes insight into ESG risk issues that will inform their business practices.

About RepRisk AG

RepRisk is the leading provider of dynamic business intelligence on environmental, social and governance (ESG) risks. Our multi-lingual analysts monitor controversial issues on a daily basis to allow clients to identify and assess the ESG issues which may present financial, reputational, and ethical risks across an unlimited universe of companies and projects.

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Produced by RepRisk AG

Editors and collaborators: Oula Kadhum, Stella Kenway, Alessandra Oglino, Karen Reiner, Leesa Soulodre, Anna Tuson

Contributors: Simon Airey, Phil Dickie, Harald Heubaum, Toni Johnson, Robert Klijn, Dan Plesch, Association for Sustainable and Responsible Investment in Asia, Responsible Research

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Cover Photo: istockphoto.com: evirgen

RepRisk AG, Stampfenbachstrasse 42, 8006 Zurich, Switzerland. Tel. +41 43 300 54 40 www.reprisk.com

The latest challenge on the global compliance agenda

Simon Airey is Head of Corporate Crime, Investigations and Compliance Director, National Tax Investigations at DLA Piper

The regulatory and legal landscape for companies operating in the energy and extraction industry is extremely complex. Many companies have global activities and often operate in difficult geographic and political environments. This presents a multitude of social, regulatory and legal issues concerning ethics, health and safety, environment, sustainability, security, finance, trade and corporate governance.

An effective compliance function is a key factor in avoiding regulatory, criminal and civil action, as well as maintaining company reputation. Stakeholders and investors are also demanding more transparency and higher ethical standards. While competing demands often lead to escalating compliance costs, the high price of major compliance failures can bring even more devastating consequences.

In recent years, many big names have hit the headlines as various law enforcement authorities around the world have taken action against them. Many of these companies, including Siemens, BP, Shell and Eni, have been forced to spend millions on internal investigations, legal costs, fines, upgrading their compliance programs and promoting their renewed commitment to ethical conduct.

The regulatory environment is always changing. Currently there is a renewed focus on the sectors that are known to be vulnerable to corruption and bribery. This means that energy companies are high on the enforcement agencies' radar. Transparency International's 'Bribe Payer's Index 2011' ranks utilities, oil and gas, mining and power generation and transmission amongst the businesses most likely to pay bribes.

Transparency International's 'Bribe Payer's Index 2011' ranks utilities, oil and gas, mining and power generation and transmission amongst the businesses most likely to pay bribes

In the UK, the Serious Fraud Office is currently investigating a number of energy industry cases. The latest prosecution resulted in the convictions of four individuals who had been conspiring to illegally obtain payments of around GBP 70 million disguised as "consultancy services." The bribes related to a number of high-value oil and gas engineering projects in Iran, Egypt, Russia, the United Arab Emirates and Singapore.

In July 2011, the compliance bar was raised even higher when the UK Bribery Act came into force. Many companies already have Foreign Corrupt Practices Act (FCPA) compliance programs in place to prevent bribery of foreign public officials. However for companies with connections to the UK, this may no longer be sufficient as the Bribery Act is, in some respects, even tougher than the FCPA.

The key features of the Bribery Act are as follows: It is an offence to give or receive a bribe, which includes promising, offering, requesting or agreeing to receive a bribe. Both the public and private sectors are covered – the Bribery Act is not just about bribing public officials, commercial bribery is also criminalized.

There is a corporate offense which applies to a "commercial organization" that fails to prevent bribery.

There is a specific offense of bribing a foreign public official with no exemption for facilitation payments or promotional expenses (unlike the FCPA position).

The maximum penalty for individuals will be 10 years' imprisonment and/or a fine. The maximum penalty for a company will be an unlimited fine. There are also collateral consequences associated with any conviction: director disqualification, debarment from public procurement and asset confiscation.

It is the corporate offense of failing to prevent bribery by an "associated person" and the extraterritorial reach of the UK legislation that has put anti-bribery compliance back on the agenda. The underlying policy reasons are firstly aimed at encouraging more corporates to implement effective anti-bribery compliance programs and secondly, to give prosecutors the power to act against those international businesses with a presence in the UK that fail to prevent bribes being paid on their behalf in the UK or overseas. This includes bribes that might be paid by associated third parties (agents, employees, subsidiaries etc.) to obtain or retain business for the company, even if those bribes are paid without the knowledge or involvement of the company.

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In respect of the corporate offense, if a company can prove that it had "adequate procedures" in place, it will have a complete defense. In essence, it must show that it has implemented an anti-bribery program appropriate for the risk profile of its business and that the bribe was a rogue act in contravention of its policies and procedures.

As would be expected, the legislation applies to offences committed by anyone on UK soil and to offences committed by UK nationals and companies overseas.

Yet why should it matter to non-UK nationals or companies who engage in bribery outside the UK? The answer lies in the fact that UK prosecutors will have the jurisdiction to prosecute offenses where there is some close connection to the UK, wherever in the world the bribes take place.

Although at first glance this may seem like yet another compliance burden to add to the list, the UK government has emphasized that the Bribery Act is "directed at making life difficult for the mavericks responsible for corruption, not unduly burdening the vast majority of decent, law-abiding firms."

Nevertheless, overstretched compliance departments in high-risk sectors may need reassurance that their anti-bribery measures are sufficiently robust. In this respect, an external and independent review to examine the scope and efficacy of the compliance program can be an invaluable tool in giving peace of mind, justifying the investment in compliance and demonstrating to the relevant authorities that the company takes its obligations seriously.

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Controversial Mining Report

The mining industry has long attracted unwanted attention due to safety issues and environmental destruction. The sight of large-scale transformations of the landscape, whether seen in person, in news footage or in documentaries, often incites opposition and protest from communities, activists and other stakeholders. While these effects have readily drawn attention from the media, in more recent times a range of less obvious problems associated with mining have become increasingly salient.

RepRisk's Most Controversial Mining Companies (MCMCs) Report captures the wide range of criticism leveled at ten of the most controversial mining companies over the sector's recent history. While the impact on the natural landscape, as well as worker fatalities continue to feature prominently, the report outlines many of the more hidden risks attached to their operations.

Mining companies are engaged in activities around the globe, often in developing countries and even conflict zones such as the Democratic Republic of Congo. In these countries, regulations regarding the environment and human rights protection are often lax, and the companies are also able to enter into favorable tax agreements, which reap few benefits for local people. Barrick Gold's Pascua Lama Mine, which straddles the border of Chile and Argentina, is an example of this, while Glencore's operations in Zambia have been heavily criticized for alleged tax evasion.

While it is claimed that local communities see little reward from the wealth created through the raw materials mined in their regions, they must also face the negative impacts of mining, such as contamination or overuse of local water supplies; the release of toxic waste, dust, and greenhouse gases into the atmosphere and local environment; damage to the landscape; and the depletion of natural food supplies. Poor and indigenous communities have traditionally suffered the most, due to their heavy reliance on the land and natural resources for their livelihoods. Several companies in the MCMCs report have been accused of forcibly displacing communities in order to access their land, without paying out appropriate compensation.

A range of stakeholders, including NGOs, communities, employees, governments and shareholders, have joined the debate about the benefits of mining versus the economic advantages, and are scrutinizing those companies seen to put profits and cost cutting before best practice for all concerned. They have been successful in a number of initiatives, such as the suspension of the USD 4.8 billion Conga Mine, owned by Compania de Minas Buenaventura and Newmont Mining in Peru after several days of violent protests. A local community has also challenged the permit granted to Alpha subsidiary, Highland Mining's Reylas mine in West Virginia. Mining opponents have made their presence felt at the annual general meetings of Rio Tinto and Vedanta and brought attention to alleged human rights and environmental abuses by the companies.

The MCMC report highlights cases of alleged underhand tactics used by mining companies to hinder opposition and punish local people that try to benefit from natural resources. Security and police forces employed by mining companies have been accused of horrendous abuses, including beatings, rapes and murders. These accusations have been particularly prevalent at Barrick Gold's Porgera Mine in Papua New Guinea. Those that try to survive, living on the mine's periphery following the depletion of their natural resources and the loss of their land, have reportedly faced brutal retribution. Intruders protesting against the alleged forced relocation of 10,000 families, the poisoning of residents, and the loss of livelihoods were shot dead at Barrick's North Mara Gold Mine in Tanzania. Meanwhile a Freeport-McMoRan subsidiary apparently paid Indonesian police to guard its Grasberg Mine, who later opened fire on striking workers in October 2011. Furthermore in Ghana, local communities refused to relocate for Newmont Ghana Gold's Akyem Project, which resulted in violent clashes with police forces.

To read the full report, please go to:
http://www.reprisk.com/repriskspecialreports

Embedding Reputation Risk into Sustainability Programs

RepRisk Podcast:
April 6, 2012: 2pm (GMT)

RepRisk is pleased to welcome Dr. Robert Pojasek, Harvard Adjunct Professor and Sustainability Leader of the Shaw Group.

Dr Pojasek will share a best practice approach to creating a proactive risk management program through the use of quantitative leading indicators for sustainability.

To register, send your name, job title, email and contact details to:
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Lessons learnt from BP's Gulf of Mexico oil spill

Robert Klijn is an ESG specialist and Managing Director of Fair Impact

Robert Klijn from Fair Impact talks to RepRisk about the lessons learnt from the BP Gulf of Mexico oil spill.

Fair Impact is an environmental, social and corporate governance (ESG) consultancy based in the Netherlands. It was founded in 2010 by Robert Klijn, an ESG specialist who wanted to make a contribution to a more sustainable world. Fair Impact works with an international network of brokers, family offices, insurers, listed companies, non-governmental organizations, pension funds and private banking teams. Fair Impact also has a partnership with Tradeinfo to jointly organize the Responsible Investment Corporate Access conference in Zurich, which will be held on July 2, 2012. Furthermore, it organizes a series of thematic round table meetings with Double Dividend about responsible investments every year.

RepRisk: In your everyday business you work with a number of money managers who invest in the Oil and Gas industry. What were their initial reactions to the BP oil spill?

Robert Klijn: Most mainstream portfolio managers had no idea that BP had been cutting corners on safety procedures to such an extent and were surprised about the incident. Most ESG specialists already knew about the underinvestment in safety. However, especially in the UK, their portfolio management colleagues still invested in BP because of the high dividend payments. ESG specialist Nick Robins was the first to tell me about the poor safety records at BP, well ahead of the explosion at BP's Texas City refinery in 2005 and the series of incidents that happened thereafter. At that time he was Head of Socially Responsible Investments (SRI) funds at Henderson Global Investors.

Henderson's retail SRI funds had sold out of BP shares in 2003 on the basis of their views about the company's ability to deliver strong environmental, health and safety performance across the business. (Today he leads the Climate Change Centre of Excellence at HSBC.)

At the time Henderson was concerned about the performance in some of the company's businesses – for example in January 2002, the company was fined GBP 1 million following a prosecution by the Health and Safety Executive at its Grangemouth refinery in the UK. In Alaska too, a 2001 review found a serious backlog of safety-critical maintenance, followed by an outbreak of 'whistle-blowing' by concerned employees, including testimony to Congress in March 2002.

RR: Has the BP spill changed the way investors view environmental risk management?

RK: High-tech production of oil in deepwater and environmental risk management has been highlighted by the spill, especially because it was so close to the US and therefore triggered a lot of media attention. As a result of this issue and many other disasters gaining prominence, investors have spent more money on screening for, and compliance with, ESG issues. Investors like APG are eager to be informed about potential controversial issues at an early stage. Some SRI investors, which had considered BP to be 'best in class' in the oil and gas sector, sold out of the company as soon as they heard of the spill.

RR: Considering the accusations leveled at BP about its commitment to safety processes, do you think the BP oil spill has made investors take a more active role in holding corporations accountable for health and safety checks?

The BP spill has indeed made investors more active. Not only with regard to the health and safety checks that relate to their own workers, but also in relation to contractors, like oil services companies Halliburton and Transocean. As many as 52 companies (according to the RepRisk database) have been linked to the BP disaster. In a presentation for SRI investors last October, BP acknowledged that the injury rate of BP's contractors is 60 percent higher than for employees – leading to recommendations for "fewer, deeper, and longer" relationships with contractors.

RR: Have the social, environmental and financial consequences of the BP spill had a positive effect on investments in sustainable energy?

RK: It has stimulated investors in non-sustainable energy to explore sustainable alternatives, however in the long-term, a high oil price is still the most important factor for determining the level of investment in sustainable energy. Societal pressure and a change in subsidies from conventional to alternative energy will fuel investment in sustainable energy as well.

RR: What would be your risk management advice for investors who finance energy projects in the Oil and Gas Industries?

RK: Technological improvements will give access to more fossil energy sources, but it will also accelerate the challenge of risk management. The industry should accept that not all innovations are possible without proper consideration of the risks associated with them. To mitigate the risks, investors should diversify their holdings both in terms of sector and geography.

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The controversy surrounding oil sands

Harald Heubaum is a Lecturer in Global Energy and Climate Policy at the Centre for International Studies and Diplomacy at the School of Oriental and African Studies

The growing global demand for oil, combined with a leveling off of conventional oil production and consistently high oil prices, have provided rich incentives for the exploration and development of unconventional oil reservoirs such as oil sands and oil shale. Although oil sands have been mined in Canada for decades, production has been scaled up in recent years. Increased industrial activity has created economic growth and employment opportunities, but it has also fueled growing opposition to the environmental impact of the large-scale development of unconventional oil deposits. To shed more light on the economic, regulatory and environmental dimensions of oil sands production, RepRisk spoke to Harald Heubaum, Lecturer in Global Energy & Climate Policy at the School of Oriental and African Studies' Centre for International Studies and Diplomacy.

RepRisk: Why is the EU seeking to label oil sand-derived fuel as one of the most carbon-intensive fuel options?

Harald Heubaum: The proposed fuel law assigned a default GHG value of 107 grams per megajoule to fuel derived from oil sands as opposed to 87.5 grams for conventional sources of oil. However, the EU does not currently import any significant amounts of this fuel so European consumers are not yet affected. There are two other principal reasons for the move. First, the Climate Commissioner and others would like to pre-empt the development of oil sands located within EU member states such as Estonia.

Second, labeling oil sands as highly polluting would not only threaten future access to European markets but could prompt other jurisdictions into taking action as well.

We can see this happening in California, which, in early December 2011 decided to back the EU's plans. Other US states have followed California's lead on fuel-efficiency standards in the past and this could lead to a similar situation in other markets.

The Canadian government and multinational oil companies have been worried that the labeling of oil sands coupled with low-carbon fuel standards in the EU and other OECD countries would make emissions-intensive fuels less desirable and cut into profits. The battle over the EU's draft fuel law including Canada's threats of a "trade war" if the measure goes forward are evidence of that.

RR: Despite the debate in Europe, major multinational oil companies have increased their production of fuel derived from Canadian oil sands compared with just a few years ago. What has driven these developments?

HH: Continued exploration and production are driven mainly by high oil prices and lower production costs than in the mid-2000s. It is generally assumed that new oil sand operations require an oil price of USD 70 per barrel or more to be economically feasible. However, technological advances mean that some existing operations provide a return on investment with oil prices as low as USD 50 per barrel.

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For the last three years, global oil prices have been well in excess of those margins. Brent crude, the global benchmark, has stood above USD 100 per barrel for most of 2011 and it is unlikely that prices will drop dramatically in the near to mid-term future. This means that oil sand projects will remain economically viable for some time to come.

RR: And yet industrial development seems to have been held back by a lack of political support.

HH: The Canadian government under Prime Minister Harper has actually been very supportive of continued oil sand development in Alberta's Athabasca region, despite continued opposition from local environmental groups. Last year it approved Total SA's Joselyn North mining project following a six-year review.

In the United States, oil sand-derived fuel has been a highly contentious issue for the last two years, pitting environmentalists and some landowners against business and labor groups. The issue is the Keystone XL pipeline project, which would transport the crude oil from its production sites in Alberta to the refineries along the Texan Gulf Coast.

The Obama administration recently rejected the pipeline proposal, citing insufficient time to determine whether Keystone XL is in the national interest. However, the company behind the pipeline, TransCanada Corp, can reapply for a permit if the project is rerouted to avoid passing through the Nebraska Sandhills which sit atop the Ogallala aquifer, the main source of freshwater in the Midwest. The Nebraska legislature recently passed a proposal to determine such a route.

RR: The routing of the Keystone pipeline is one issue but environmental groups have raised concerns about the process of mining oil sands itself. They argue that large-scale environmental destruction is too high a price to pay for just a few additional barrels of oil.

HH: There is no doubt that the environmental impact of a barrel of oil derived from oil sands is high. The mining process is exceptionally invasive even when using the latest technologies and we cannot yet tell how the effects on once pristine lands and local fauna will play out in the long run.

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Unfortunately, environmental regulation has had to play catch-up with a comparatively sudden scaling-up of industrial activity.

In addition, oil sand-derived fuel generally emits more CO2 over its entire lifecycle "well to wheels" than fuel produced in conventional ways. However, current GHG emissions from the oil sands industry in Alberta make up no more than five percent of Canada's entire emissions.

Canada recently left the Kyoto Protocol to avoid billions of dollars in fines it would otherwise have incurred as a result of emitting more carbon dioxide than ever before. However, it did not miss its Kyoto targets solely because of mining operations in its western province.

RR: If emissions are still comparatively small, why are climate change activists pushing this issue so hard? Should they focus on other, more emissions-intensive processes instead?

HH: The climate impact of oil sands should be addressed but the question is whether related emissions will grow, stabilize or even decline over time. Over the past 20 years, technological advancements and efficiency improvements have already reduced the GHG-intensity of oil production in Alberta. Carbon capture and storage (CCS) could make a significant contribution to cutting the carbon footprint further. However, other countries such as Venezuela, Russia and Colombia are also endowed with rich unconventional oil reserves and if these are developed without regard to climate change and appropriate regulation, the global impact will be more noticeable.

RR: Opponents of fuel derived from oil sands would like to end the practice altogether. Is this a realistic option?

HH: This could only happen if the world community got tough on global climate change and started to seriously wean itself off its addiction to oil as a transport fuel. However, neither one is likely to happen anytime soon. COP-17 in Durban produced an agreement for a new legally binding treaty by 2015, which would come into force by 2020. If this actually happened as planned, a new compliance period would then not start until 2025 or so. This means more than a dozen years of largely unmitigated GHG emissions and a continued legislative and regulatory patchwork around the world. Only a sufficiently high price on carbon could pose a more immediate threat.

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EITI Extractive Industries Transparency Initiative

EITI Eddie Rich- Deputy Head and Regional Director for Eastern and Southern Africa and the Middle East

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The precarious future of Australia's coal seam gas industry

Anna Tuson is a freelance journalist based in Melbourne, Australia covering environmental, social and governance issues in the energy, mining and extractives sectors.

Tuson

Coal Seam Gas opponents marched to Parliament House in Sydney in protest at the controversial mining practice in Australia.

The fight for the hearts and minds of the population is fierce, strategic and sophisticated in the debate over coal seam gas (CSG) mining in Australia.

Increasingly viewed as the biggest issue facing the country today, public perception of CSG is key in determining how, or if, the momentum of its development will continue.

It is particularly crucial at this stage as governments around the world decide how to regulate the practice, which is considered by many experts to be the biggest threat to the mining companies involved and may well be the deciding factor for them to maintain their licenses to operate.

The decision-makers are torn between two powerful incentives. On the one hand the companies pushing forward with exploration and production are dangling the ever-alluring carrot of economic impetus before them. On the other side, they must consider their stakeholders interests.

The Extraction Process

CSG can be extracted by drilling into coal seams and pumping water through them to release the gas from the coal. There are several risks attached to this method, such as the potential for methane, a much more dangerous greenhouse gas than carbon dioxide, to leak into the atmosphere during extraction and even cause explosions when exposed to oxygen. Depletion and contamination of groundwater are also potentially detrimental impacts, and there are concerns that toxic pollutants could be brought to the surface.

Another extraction method is the highly controversial method of hydraulic fracturing, or 'fracking', in which tiny explosions are created underground before a massive amount of water mixed with sand and chemicals is pumped in to crack open the rock.

Despite what critics say, CSG may still offer a more ecological alternative than other energy sources.

For example, it is claimed that it produces significantly less greenhouse gas emissions than coal when burnt. This however could be outweighed by the risk of methane leaks during extraction.

Activists and grassroots organizations in Australia are campaigning hard against the practice of CSG and are becoming highly efficient at getting their message heard through the clever use of mainstream, independent and social media. They are well organized, with campaigns such as the Lock the Gate Alliance and Stop CSG and associated websites and rallies.

In November, hundreds of Australians marched to Parliament House in Sydney to hand over a petition signed by 20,000 CSG opponents, where they were met by several MPs who promised to table it in Parliament.

The petition demanded an immediate moratorium on all CSG projects, a Royal Commission into the full impacts of the practice and an immediate ban on fracking.

"They can't just do the science as they go," said Drew Hutton, president of the Lock the Gate Alliance, an organization that urges farmers to keep their gates locked and gas companies off their land. "The government must impose a moratorium until the facts are known," said Hutton.

Risky business?

Some investors have also been quick to respond. The Australian Ethical Investments Superannuation fund recently divested from Origin Energy due to the company's involvement in CSG. The fund's communications manager Paul Smith says that water management was one of the primary concerns that led to the decision. Australian Ethical Managing Director Phil Vernon said in a press release: "The decision was taken following a thorough assessment of the risks surrounding Origin's coal seam gas extraction operations. Our conclusion was that, whilst the industry has invested in methods to minimize these risks, many of these are untested and there remain concerns about their long-term impact."

Together with British Gas and Santos, Origin is involved in AUD 50 billion worth of CSG projects in Gladstone, Queensland, mostly in the Great Artesian Basin. The basin provides the only reliable water source in inland Australia, a drought-prone region where water is an especially precious resource, meaning contamination or depletion could be disastrous.

Tuson

Divided opinions

Sophisticated engagement and publicity campaigns designed to build trust with stakeholders have been created by utilities, such as Origin Energy. These campaigns are a demonstration of just how aware these companies are of the need to proactively construct a good image around coal seam gas and to counter the rise of criticism from their stakeholder opponents.

Focusing on farmers as the primary audience, who are often used as trust benchmarks by the media, and who are also the people often most directly and immediately affected by mining activity, Origin's advertising strategy has been well thought out.

Nevertheless, farmer communities also appear to be divided over the issue. Some farmers can be counted amongst the most vocal opponents of CSG, fearing the impact on their land, water and livelihoods. Others are happy with their partnerships with the companies and say there are no problems with their land so far. "There are ten times more positives than negatives," said cattle farmer Gordon Allen from Cecil Plains in Queensland. "They've brought wealth to the area."

Uncertain road

Gas is a key export for Australia and it also plays a significant role in the domestic market. As the country's abundant coal supply may be set to lose its position as a favored cheap energy source thanks to new carbon tax laws, the time is ripe for a new energy.

The potential economic benefits are highlighted by the drive with which interested companies are pursuing CSG projects. However, the potential risks involved are just as salient. Therefore, if public unease is not addressed, the industry's charge could be stopped in its tracks.

Australians are demanding formal scientific studies and evidence of how adverse impacts on the land, environment, water and their health will be mitigated before any more projects are given approval.

By pushing ahead too quickly, the industry could face even greater opposition if the government were to bow to public pressure for strict regulation or removing CSG project permits.

(Neither Origin Energy nor BHP Billiton had responded to interview requests by the time of publication.)

Can the world still go nuclear?

Toni Johnson is a Senior Staff Writer for Religion, Energy, Environment, & Global Health at the Council on Foreign Relations

The 2011 nuclear accident at the Fukushima Daiichi power plant in Japan was a devastating blow to an industry that has for the past few years been looking at a potential "renaissance" after nearly two decades of stagnation. The fortunes of the industry post-Fukushima have been the subject of much discussion. The incident also comes as shale gas has emerged as a potential major domestic energy source for countries that are currently import dependent, and a global economic crisis makes nuclear less competitive with other energy sources.

Nuclear power will likely in the short-term experience a contraction as established markets, such as once stalwart Japan, begin to reduce existing nuclear power. But the two factors, which created renewed interest in nuclear power – emerging-market energy demand and climate change – still exist and will likely continue to help the industry. As nuclear power expands from largely established markets, such as Europe, the United States, and Japan into new countries without nuclear experience and possibly weak regulatory regimes, experts are concerned about the industry's ability to protect against Fukushima and Chernobyl like accidents.

Contracting Established Markets

As of September 2011, nearly 20 new reactors were still in the works in Europe, primarily in Russia with a handful in Bulgaria, Ukraine and the Slovakian Republic. Only Finland is constructing a new plant in Western Europe. Until last year, the United States hadn't seen a commercial reactor come online in decades – a country which currently has a quarter of the world's operating reactors. "The industry was arguably on life support before Fukushima," argues energy expert Mycle Schneider. "When the history of this industry is written, Fukushima is likely to introduce its final chapter."

From the United States to Germany to Japan, many nuclear plants are past their original design specifications of about 40 years. Following Fukushima, Germany almost immediately announced it was halting an already controversial plan to extend the life of its power plants and instead decided to phase out its existing reactors in favor of renewable energy. Japan also recently announced that it was moving to shut down reactors after the 40-year mark, which would likely shutter more than half its nuclear fleet in the next two decades. The United States has also been asked to reevaluate its re-commissioning plan of extending reactor use to sixty years and potentially beyond. The 2011 report from the World Watch Institute paints a dismal picture for the nuclear power industry in established markets (places with existing nuclear power), noting that decommissioning reactors at the forty year mark could become the norm, which would considerably decrease nuclear use in the next few decades.

Clearly Fukushima had a deleterious effect on Western Europe, which has historically had a contentious relationship with nuclear power. Germany's announcement was followed by moves against nuclear in countries such as Italy and Switzerland. A few countries such as Britain will continue, but with public opposition so strong it doesn't bode well for nuclear power on the continent.

Meanwhile, Fukushima likely had little impact on the decades-stagnant US nuclear industry, which already faced a competitive set of other domestic energy sources and tremendous cost and regulatory difficulties. The shale gas boom in the United States, which saw a growth from 1 percent of production to 20 percent in less than a decade, was probably an even bigger factor than Fukushima in dampening nuclear interest.

Shale gas has gained interest as a potential source to scale up quickly in many nations once thought to have very small gas resources. Whether that will have the same impact on nuclear interest in other countries is yet to be seen.

All of these issues are compounded by the tremendous cost and component hurdles faced by countries looking to install new nuclear plants, which can take more than a decade to build and cost easily USD 10 billion. There is also a lack of experienced engineers to run plants.

Potential New Markets

Still, many countries with growing economies and middle classes are looking at ways to access reliable and diverse electricity production. With fossil fuel use increasingly less attractive because of climate change, nuclear energy, which has a very small carbon footprint, has gained new attention. Much of the new nuclear power coming online in the next decade will be in Asian emerging markets, particularly China. (This CFR interactive looks at new nuclear power coming online). Nearly half of all reactors under construction are being built in China, which plans to expand its output from nearly 11GW of power to 80 GW by 2020 and up to 400 GW by 2050. "In China, where energy demand is skyrocketing, the appetite for nuclear power is undiminished," says a September Discovery Magazine blog post on the country's 20 year plan to pursue molten salt reactors.

As nuclear expert Henry Sokolski notes in a November article, nuclear prospects look even brighter when looking at countries such as India, Vietnam, Pakistan, Turkey, United Arab Emirates, Jordan, and Saudi Arabia as the United States, France, Japan, China, and Russia look to secure new nuclear markets.

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"None of these nuclear customers, it should be noted, has a nuclear-safety regulatory system worthy of the name," Sokolski says. "Nor, outside of Pakistan, do any of them have enough trained technicians to build or operate large nuclear-power programs." China alone will need an estimated 6000 nuclear technicians per year to meet its intended plant growth but is only producing about 600.

Such disparities matter. Failures in safety procedures and maintenance at Chernobyl in 1986 and Fukushima plants have caused considerable trouble for the industry worldwide. "Twenty-five years apart, Chernobyl and Fukushima were events that nuclear plant designers assumed would never happen," writes Stephanie Cooke of Nuclear Intelligence Weekly in the New York Times. "Any further major accidents could spell the industry's doom."

New Nuclear Regime?

If the industry can expect to make its biggest inroads into countries that have little nuclear experience, the question is can the international industry devise a regime at the inter-country level that will suffice?

In September 2011, the International Atomic Energy Agency (IAEA) endorsed an action plan on nuclear safety, which calls on governments to immediately begin safety assessments of existing plants and allow IAEA inspectors access to plants. The plan also calls for countries to work toward better international liability regimes. Some countries were unhappy the plan did not contain stricter measures that mandated IAEA inspections. However, other countries, such as the United States, India and China, stressed that the power to ensure safety should remain in the hands of national authorities.

International governance has largely been focused on preventing the proliferation of nuclear weapons. And indeed, that is a necessary and worthy effort. Little attention has been paid on governance of nuclear power beyond that realm but maybe it is time to reconsider this. The world has a treaty for addressing liability issues from nuclear power accidents, but with more than two dozen countries looking to enter the nuclear power business, perhaps what the world needs is a treaty exclusively governing nuclear power safety rules – with regular high-level meetings to adjust to the changing industry.

Some industry actors might see this as another potential regulatory hurdle, but since one bad apple can easily topple an already unstable apple cart, such a regime could actually lend the industry a new much-needed layer of protection, as well as bolstering safety for all involved.

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The impact of water scarcity on energy and food security

Phil Dickie is a longtime author and commentator on environmental issues and is currently Head of News and Issues Management at WWF International. WWF should not be held accountable, for the views expressed in this article.

The rise of rhetorical catch phrases is often a good guide to emerging concerns in geopolitics. Right now it is "the food, water, energy nexus," which is cropping up in contexts as far removed from each other as the Arab Spring and climate policy.

The best way to make sense of it is to consider the projection that by 2100, the world population will reach 10 billion. This is an alarming prospect given that a large portion of the existing seven billion people already lack access to adequate food, water or energy. Particularly with food, the world has been throwing money, technology and international agreements at the issue for a long time. There have been periods of progress but lately the mildly promising trends appear to have gone into reverse. One key reason is that there is less water for food production. Rainfall patterns are changing and we are approaching or often exceeding the diversion limits for many rivers, lakes and aquifers. Another reason is more competition for available water from booming cities and from crops produced for animal feed and bio-energy.

What is increasingly obvious is that it is now impossible to consider food security, water security and energy security in isolation. In "a hot, flat and crowded" world, we are talking about trade-offs as much as choices. The weakest, most vulnerable link is likely to be freshwater availability.

Our water – for everything – is increasingly being obtained from further away, deeper down, or even from the sea with one very apt description for desalinated water being "bottled electricity." There has been a quantum increase in the energy intensity of our water supplies.

The intensive use of water in energy production has also been increasing rapidly, and droughts and anxiety over river and aquifer levels have been curtailing production for more than a decade. Nuclear, hydro or coal and gas powered projects have been cancelled on most continents. Power station planners and operators are also having to cope with more competition and regulation over their access to and use of water. The passing of "peak oil" means resorting to what are sometimes called "unconventional sources" of which most are water intensive. For example, shale oil not only uses large quantities of water but pollutes much of the water it does use. Hydraulic fracturing poses similar risks to vital groundwater supplies, while hydrogen production is also water intensive.

World leaders will gather in Rio de Janeiro in Brazil in June 2012, to review progress and chart a new course 20 years after the original Rio summit on sustainable development. Food, water and energy security are all on the agenda, but on the draft statement the proposals for international agreement on water contain the worst ratio of platitudes to proposals for action.

For instance, international systems and nations have a very patchy record concerning the sharing of water that crosses, forms or lies under international boundaries. A UN convention on water sharing is setting a new record for the length of time it is taking to accumulate enough signatories to come into force. Behind the 15-year delay is the behind-the-scenes lobbying of upstream nations like China and Turkey, and of nations such as the US and Israel that benefit from unequal water sharing agreements with neighbors.

Some companies have performed much better at positioning themselves in relation to emerging risk. Again, taking water as the example, pioneering work by scientific, intergovernmental, business and civil society institutions have increased stakeholders understanding of water issues, and raised the bar on what is considered responsible water use. Among businesses, it is no surprise to see that beverage companies such as The Coca-Cola Company and SAB Miller are among the most deeply involved on water issues. Yet a recent survey by global environment organisation WWF and the German development bank DEG, found that 191 of 300 companies studied were exposed to serious business risk because of environmental, social and governance issues related to freshwater.

Running out of adequate water supplies is just one dimension of business water risk. Others include additional water-related disaster risks, regulatory and reputational risks and more public and media scrutiny of water-related issues. Companies are now finding they have to be responsible and responsive in catchments as well as in the communities in which they operate.

Similarly, companies that have responded to what is sometimes known as carbon or climate risk are now appreciating broader benefits in terms of greater energy security. The switch towards renewables also diversifies energy sources with local alternatives, while the push towards energy efficiency reduces dependence and thereby risk.

The necessary and possible case for alternative energy

Dan Plesch is the Director of the Centre for International Studies and Diplomacy at the School of Oriental and African Studies

Fossil Fuel Dependence

The greatest risk arising from scarce resources in the modern age concerns oil. A solution can be found in the type of political leadership shown by France in the 1970s, but this time directed at low risk new technologies. The reliance of the industrialized world on this single type of fuel for motor vehicles would not matter if oil was found as easily as coal or even trees, but the fact that 60 percent of world reserves are located in the Persian Gulf has resulted in intense and growing competition between states for access to it.

In addition to its dependence on oil imports, Europe is increasingly relying on the importation of natural gas to run its electric power generation. As Britain's Institute for Civil Engineers put it: "This country has been self sufficient in electricity generation for the past 100 years. This is changing dramatically. The (domestic) generation shortfall (80 per cent of current capacity) will be taken up by gas, 90 percent of which will be delivered to this country through a very small number of pipelines."

The mainstream view of the problem of energy security is summarized in "Strategic Trends," a study of Britain's Ministry of Defence's think tank, the Joint Doctrine and Concepts Centre:

"Global demand for energy resources will increase significantly due primarily to development and industrialization in South and East Asia. There is little prospect of revolutionary breakthroughs in alternative supplies. Renewable and nuclear energy sources will remain of moderate importance but fossil fuels, and particularly oil and gas, will persist to be dominant. These will stay the key strategic resources as the main areas of supply and demand are separate. Their location and transport routes will therefore be security drivers for the developed and developing nations alike."

A Strategic Shift

The argument I am making is that it is both necessary and possible to make a revolutionary breakthrough in alternative supplies. Such a strategic shift in technology towards renewable sources for transport, business and home use is possible and should be made a national security priority in the UK, the EU and in the world as a whole. One historical example indicates that a revolutionary transition is practical. In the early 1970s France drew less than 10 percent of its energy from nuclear reactors, today it draws approximately 75 percent[1]. This shift required massive investment by the French government and was implemented to free France from dependence on oil-fired electric power plants and from the problem of the decline in both its own and Germany's supplies of coal.

The main study on the cost of this transition was carried out for the French Prime Minister, Lionel Jospin, in 2000. One of the authors wrote to me saying; "In total, France spent about FRF 1,189 billion – or roughly EUR 180 billion – in the first 21 years of operation of its nuclear fleet, corresponding to an average of EUR 8.6 billion a year."[2] This does not include decommissioning costs.

By way of comparison, the UK is seeking funding of some GBP 6 billion to achieve around 10 percent electricity production from wind by the end of the decade.

Just for the sake of argument, if we were to create 150 percent of present electricity supply from renewable energy over 20 years, the cost at these rates would be GBP 90 billion or just over GBP 4 billion a year. This is a huge sum to the average constituent, but quite a manageable sum in the current government's budget.

Cost Comparison

Renewable energy, including shifting to new engines and fuels for cars, presents some technical challenges. The problems are mainly concerned with driving down costs, through improved economies of scale and from increasing research and development. These challenges are far less difficult than those of creating new types of nuclear reactors. Given that the capital cost of nuclear generation is concentrated at just a few sites, with renewable energy there could be thousands of generation points. Securing oil supplies also has a large ongoing cost to the industrialized world and to oil producers themselves and this is rarely included when traditional energy strategies are evaluated or when an assessment of the benefits of shifting to renewables is made. The security cost of oil – and in the future, of gas – is counted in the cash required to support military forces, and in putting the concern to secure oil ahead of other priorities such as democracy and human rights in some of the countries concerned. These costs form what we can call a human rights and military subsidy required to secure oil and gas. In addition, the crises threatening to interrupt supplies from the Middle East cause the oil price to go up and down with a consequent negative impact on the international economy.

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It may seem odd to include these costs because they are not normally included in traditional media analysis. Although the potential extra costs of developing renewables are often dismissed, because it is said that they will need a 'green subsidy' or 'green tax'. As Shimon Awerbuch of Sussex University observed: "The mystery is why policymakers have not exploited the obvious connection between the enormous costs imposed by fossil [fuel] volatility and the potential for mitigating these costs offered by renewables." [3] Once the costs of price volatility and security are considered, the economics of a shift to renewables becomes even more attractive.

Cost and Risk Mitigation

Officials in Western governments assume that any major disruptions to supply will be short-lived. If they prove to be wrong in this assumption, the economic and political consequences would be severe. Fortunately, using wind and solar power for electric generation, new fuels and engines for vehicles can reduce and eliminate these costs and risks. New fuels and engines include petrol substitutes from plants, electricity-generating and fuel cells drawing electric power from wind and solar energy. Major corporations and governments around the world are already pursuing some of these options.

These new options should be implemented rapidly. Doing so makes sense in terms of the realist politics that are supposedly being pursued by hawkish governments in Washington and London.

A shift out of oil and gas would be a strategic move that tackles one of the worst-case scenarios that may be inflicted upon the industrialized world. The result of the shift would be to remove a major cause of conflict and to create a stronger strategic position.

1 *International Energy Agency, Key World Energy Statistics 2002, Paris, 2003*

2 *The main study on the costs of this transition was carried out in 2000 for the then Prime Minister of France, Lionel Jospin. The only exercise of that type that was done in France was the mission for Prime Minister Jospin in 2000 of evaluating the economics of the French nuclear option. Dan Plesch was co-author of the main annex report, together with an expert from the French CEA (Commissariat à l'Energie Atomique), on 'Le Parc Nucléaire Actuel.' The purpose was to establish the material and economic balance of the existing nuclear fleet in France. This report only exists in French. It can be downloaded (in three parts) from the web links below:*
http://lesrapports.ladocumentationfrancaise.fr/BRP/014000107/0000.pdf
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3 *Determining the real cost, why renewable power is more cost competitive than previously believed, Renewable Energy World March-April 2003*

Prospects for a cleaner coal-powered future in Asia

Responsible Research is an independent provider of environment, social and governance (ESG) research for global institutional investors. It is based in Singapore and focuses on analysis of Asian companies.

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Coal is without doubt known as one of the dirtiest fuels, and its continued widespread consumption is clearly a Faustian bargain. Coal combustion emits particulates, sulphur oxides, nitrogen oxides, mercury and other metals, including radioactive materials at a much higher proportion than any other energy source, causing local pollution and contributing to global climate change.

Coal mining and coal transportation are also responsible for numerous environmental and social ills. Hundreds of thousands of people die early deaths every year due to coal, some in mines and others because of emissions created through burning it. Yet despite growing awareness of its severe consequences, the use of coal is actually on the rise.

In Asia, coal is the dominant source of power generation and, under current policies, it is projected to remain so for a number of decades to come. The International Energy Agency estimates that in 2008, 68 percent of non-OECD Asia's total power generation was derived from coal, which would move to 65 percent in 2030 under current policies. Unless there is a dramatic rethink around energy infrastructure, coal will remain the lynchpin of energy supply in Asia, if not globally.

Coal's current legitimacy is based on the social benefits that low-cost electricity can deliver, such as helping to bring people in China out of poverty over the last two decades. These benefits will however be called into question if they cannot be sustained or come at too high a cost. Pressure is already mounting due to continued climate change effects, the burgeoning health costs of coal pollution, as well as the difficulties accessing enough supplies of sufficient quality. All of which make a rethink increasingly likely.

In order to mitigate some of these ill effects, cleaner coal technologies are being implemented, offering a wide range of new technologies and processes that may help to address some of these issues.

Many cleaner coal technologies can be applied as retrofits to existing power plants, although the most efficient are best designed at the outset. The outcomes can be broadly categorized as lower CO2 emissions; improved local area emissions, which include sulphur oxides (SOx), nitrous oxides (NOx), particulates, and heavy metals including mercury; and improved coal efficiency.

In a recent report, Responsible Research examined the marketplace in emerging Asia and considered the prospects for cleaner coal technology and processes. The report, entitled 'Cleaner Coal in Asia,' looked at the ten most significant operators across the key jurisdictions of China, India, Indonesia, South Korea and Hong Kong.

In each case, the companies are involved in both implementing and shaping their respective national policies and holding a set of interests that are not always aligned with each other or with minority shareholders. For investors, the financial opportunities and risk mitigation offered by cleaner coal, is a growing dynamic in Asia that is increasingly set to influence industry returns.

Of the companies covered in the report, Hong Kong-based CLP Holdings is out in front, having developed strategies to profit from available cleaner coal promotion measures. Afforded by its monopoly rights to stable cash flow from its Hong Kong business and by the flexibility of private ownership, CLP has become an advocate for low carbon energy, including cleaner coal, in the Asia region.

istockphoto.com: Sasha Radosavljevic

For CLP, this strategy sets it apart from its competitors while also advancing awareness of the need to proactively guard the company against environment related reputation risks.

South Korea, among Asia's wealthier economies, has implemented 'developed world' standard regulations. That, and the lack of domestic coal resources (and thus reliance on highly priced imported coal, a major incentive for greater efficiency) have driven KEPCO to become a leader in cleaner coal technology to the extent that the company operates some of the most advanced coal fleets in the world.

In China, all new coal plants require the installation of SOx removal equipment and the government has pushed for improved plant efficiency. Chinese power plant operators have complied and they have also responded to rising coal prices by upgrading average fleet efficiencies at faster rates than planned or required.

All of China's five large power generational companies have made significant advancement in this area; Huaneng Power International stands out in particular.

In India, private power operators are driving the construction to fulfill gaps in capacity, but expediency is still trumping long-term project viability. Reliance Power and Tata Power are two well-connected and well-funded companies that are rapidly adding coal-fired capacity at efficiency and emissions standards that only just meet acceptable standards.

However, CLP Holdings is an exception, and the last plant they built in India included Flue Gas Desulphurisation (FGD) equipment to reduce SOx and other harmful emissions. Although this was ahead of current legislation and presented higher upfront costs, the company presented the case that it was in the interests of the commissioning authority to include an FGD management system.

It could be argued that the cleanest coal is no coal. The current lack of mechanisms to price environmental and social impacts does not mean that future mechanisms will not be developed. Even if societies fail to implement such measures, the environmental consequences of coal-fired power generation will, with time, be impossible to ignore.

Should legislation that actually addresses environmental risks be enacted, this would pose risks to the asset base of those companies that are not currently addressing environmental impacts – and their investors.

For responsible and mainstream investors seeking to comply with ethical and United Nations Global Compact guidelines there are significant opportunities to discuss the returns on cleaner coal investments with companies, as well as highlighting their position statements on climate change to national legislators in the region if they are to continue to retain assets under management and to attract greater assets in the future.

Investment risks and opportunities for Asia's energy sector

ASrIA is a not for profit, membership association dedicated to promoting sustainable finance and investment in the Asia Pacific region

Asia is expected to play a key role in driving the increase of global primary energy demand over the next 25 years. The International Energy Agency's World Energy Outlook 2011, forecasts that energy demand will increase by one third from 2010 to 2035, with China and India making up approximately 50 percent of the growth. Strong economic growth in ASEAN countries will further refocus the global energy landscape towards Asia. *(See Figure 1)*

While this emerging market will create new opportunities for investors, they will also need to be in tune with the various associated risks.

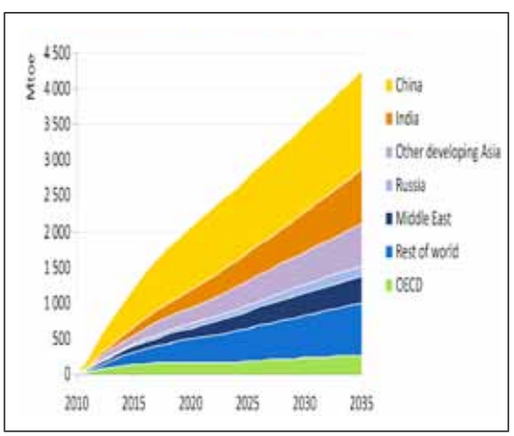
Reputational Risk

Sentiment in Asia is shifting in favor of "greener" sources of energy, with potentially negative implications for the reputation of energy companies that remain carbon-intensive. Companies that fail to develop a positive "green" reputation may find it more difficult to obtain speedy approval for projects, as these generally go through a lengthy public review process

Energy companies often benefit from government granted franchises at the expense of retail price controls. Companies not seen to be environmentally friendly could find it difficult to obtain consumer and government support and access to capital.

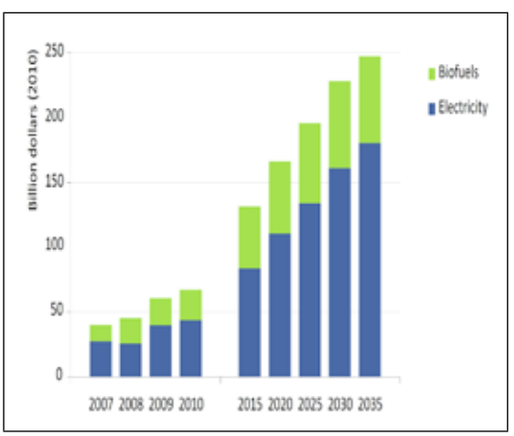
To mitigate reputational risks and to maintain and build trust, energy companies should provide clear messages to investors and other stakeholders on their medium and long-term strategies to manage the challenge of climate change and on options being pursued for diversifying into cleaner energy. Due to new local and international regulations , Asian companies will face increasing scrutiny from institutional investors.

Figure 1: Emerging economics driving global energy demand through 2035



Source: International Energy Agency

Figure 2: Renewable subsidies of USD 66 bn (2010) versus USD 409bn for fossil fuels need to climb to USD 250bn in 2035



Source: International Energy Agency

For example, fund managers at the Climate Advocacy Fund, are issuing shareholder resolutions seeking to mandate board disclosure of the carbon price assumptions for project evaluation.

Regulatory Risks

The 2011 APEC Ministerial Meeting Joint Statement showed that government policy remains a key driver in Asia's energy sector. Governments view the industry as highly strategic and often intervene, which can create risks for investors. For example, policies that push the sector in a particular direction, such as towards lower carbon intensity as is the current trend, can lead to major new taxation and market pricing distortions.

Resource and carbon taxes or carbon trading schemes may raise the cost of carbon-intensive energy projects. China's resource tax reform, effective November 1, 2011, means for instance that crude oil and natural gas will be taxed based on sales rather than on production. Rare earth and coking coal are now also subject to higher tax rates. Meanwhile mandatory retrofit schemes to reduce greenhouse gas emissions from energy facilities will incur additional capital expenses in the short term, although operational costs may be reduced in the longer term.

Energy companies are also heavily dependent on governments for their upstream primary energy exploration and development concessions, and their downstream utilities' franchises. A shift in government policy toward favoring low carbon primary energy sources could greatly increase the cost of access to high-carbon primary energy sources such as oil and coal.

Physical Risks

As the United Nations Economic and Social Commission for Asia and the Pacific outlines, the Asian and Pacific region is prone to various types of disasters, including floods, cyclones, earthquakes, drought, storm surges and tsunamis. In the last ten years, on average, more than 200 million people were impacted and more than 70,000 people were killed by natural disasters annually.

Rising sea levels are also known to be a threat to the 70 percent of consumers and businesses located near sea level in Asia, the highest regional percentage in the world. These consumers and businesses are the retail customers of Asia's energy companies. Rising sea levels also threaten primary energy investments located in low-lying areas. More volatile weather patterns brought about by climate change may also increase the potential for catastrophic physical threats that will greatly test the structural limits of upstream oil rigs, refineries and power plants.

Opportunities

Opportunities within the energy sector lie in the potential to invest in relatively low-carbon primary energy sources and electric power generation as well as smart grids. The investment attractiveness of renewable energy sources such as wind, solar and biomass is improving over time as government policies increasingly favor these sectors and as economies of scale are achieved. *(See Figure 2)*

Energy companies leading the shift to low-carbon power are particularly well placed to profit from these new investment opportunities. There is also the possibility of investing in renewable energy equipment manufacturers, and in climate change mitigation and adaptation measures such as carbon and methane capture.

Energy Sector Summary

The massive growth expected for Asia's energy sector will open up major investment opportunities in the coming years. However, they will go hand-in-hand with significant risks, both foreseeable and unforeseeable. The sector will have to adapt to align with public sentiment that is increasingly leaning towards a low-carbon future.

Governments are already changing their policies in this vein, which affects the companies involved by way of taxes and regulation. In Asia, the energy sector is also vulnerable to the physical risks of a changing climate and more extreme weather events. Investors will need to take all of these factors into account when determining valuations.

Keeping your good name and the cost of losing it

Leesa Soulodre is an Associate Professor in Marketing and Communications, Director of BluePedal Group and Senior Advisor to RepRisk AG. Leesa works with the world's largest companies in the delivery of reputation risk management in the context of financial and enterprise risk management and compliance.

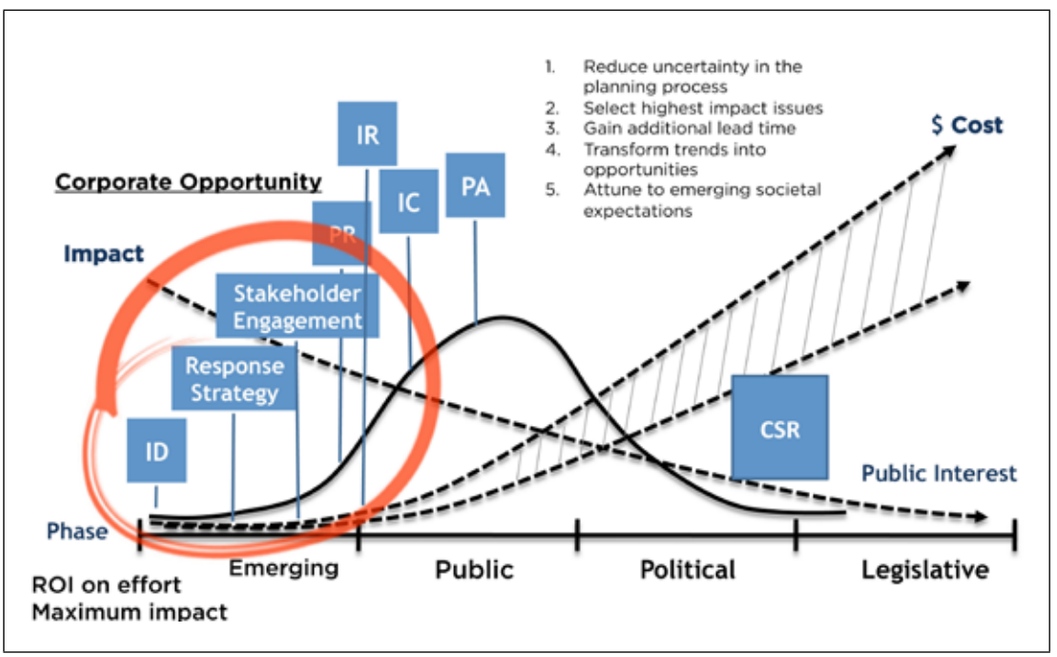
In an age when trust and corporate ethics are so valued, the reputation of companies needs to be managed with great care. The price of losing your reputation is uncomfortably high. Each year, millions of pounds are spent promoting a company and its brands to create the perfect image. Yet a single negative comment can escalate and destroy a reputation or access to market capital within days. As a result, reputation management is fast becoming more than just a buzzword among business professionals.

A board level priority

Corporate reputation is now a board level priority, affecting an organization's ability to source local partners, attract and retain staff, retain and increase revenues, deliver services and to compete in today's global marketplace. Companies depend on public acceptance of their corporate actions and therefore position themselves in accordance not only with legislative standards, but also in line with public perceptions, ethical standards and etiquette. An effective early warning system can alert executives to reputational risks quickly, and engaging with stakeholders means resources can be directed to deal with such threats.

Many firms, especially transnational corporations, find it increasingly difficult to manage and handle conflicts with external interest groups. In addition to their established stakeholders, they now face a complex web of "stake seekers" who also claim to have a stake in the company's decision-making and aim to put new issues on the corporate agenda. Companies today seek to build relationships with such groups to anticipate and prevent issues that could have an impact on their reputation. This process is typically managed through Corporate Social Responsibility (CSR), where critics are invited to join dialogues and round tables regarding controversial issues.

Figure 1: The Issues Lifecycle: From Reactive to Proactive for Competitive Advantage



The role of the Communications Department

The Communications team lies at the heart of reputation management. When a crisis hits, it is the in-house communications and PR specialists that take the lead in formulating the communications strategy. Consultation and dialogue with stakeholders is increasingly becoming part of mainstream business practice and is no longer simply an optional means to "touch base" with interest groups. Rather, stakeholder engagement is now viewed as critical to business strategy; it represents a way of gathering important feedback, anticipating and managing conflicts, improving decision-making, building consensus amongst diverse views, strengthening relationships and enhancing corporate reputation.

The Issues Lifecycle

When an issue becomes public, the cost to manage it increases and the opportunity to influence the agenda is reduced. As we move into the political and regulatory environment, the issue becomes even harder to manage and influence. *(See Figure 1)*

New Challenges and Principles

The increased volatility of issues in today's business climate can really challenge Chief Executive Officers. The risks run from poorer press coverage to potentially catastrophic crises and reputational failure. Today's business leaders need to enhance both operational and strategic performance, maintain control over costs and at the same time manage advocacy of key stakeholders across multiple geographies and time zones.

We know that reputation is not what the company thinks about itself, but rather the attitudes and opinions that others have formed, even if not grounded in fact. Stakeholders get their information partly from advertising, annual reports, events and corporate websites. These are elements that the company can largely control. But what about information made public by journalists, investors, community newsletters, think tanks, customer and employee personal blogs and political activists? How does one ensure that people have accurate information from which to form opinions and how can an issue be prevented from turning into a crisis?

Energy organizations today need to ensure they have a dialogue with the relevant audiences, with the right information and at the right time. Executive engagement programs and communications teams work best when they are connected with the relevant agencies, departments and programs.

The New Tool of Trade – Trust

Development of advantage-creating resources such as employee motivation, customer loyalty, influence on sector regulation and local license to operate are often dependent on stakeholder instrumental strategies aimed at developing trust. This stakeholder battlefield is where license to operate can be won or lost. *(See Figure 2)*

Building an actionable stakeholder strategy where corporate reputation and behavior are aligned is now a critical factor for sustaining license to operate. The choice between ignorance and building trustworthiness as a core capability may well become vital for competitive advantage in a world looking for institutions it can count on for the long term.

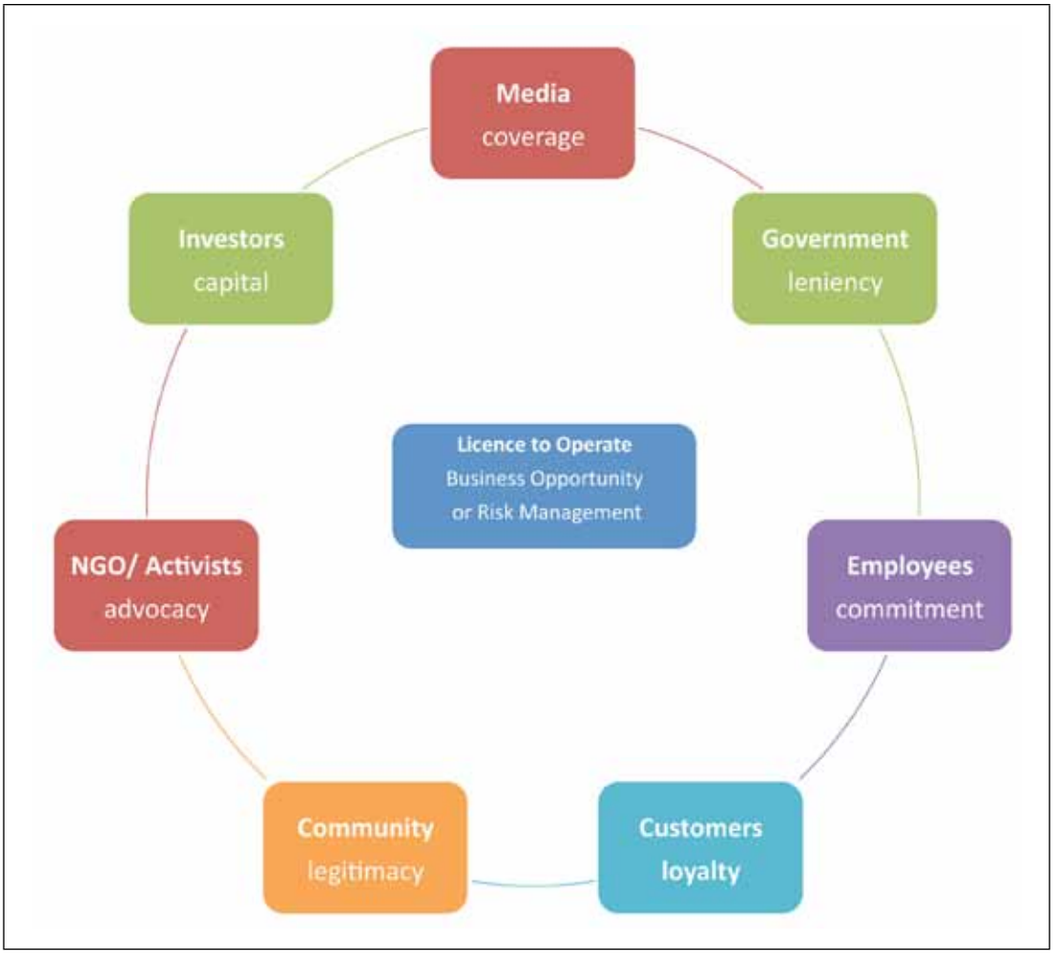


Figure 2: Battleground for Stakeholder Advocacy

Research by the public relations company, Edelman, found that if you go into a crisis as a distrusted company, it takes only 1-2 negative stories for a person to believe negative news. However if you go in as a trusted company, it takes only 1-2 positive stories for a person to believe positive news. Therefore, trust today can now be considered a protective agent and a facilitator of action leading to tangible benefits for a corporation.

The Future

It is clear that trust has to be earned through a company's actions, and reinforced by transparency and engagement. Corporations today have the opportunity to build an enduring foundation of trust if its leaders commit to a strategy that brings value to both investors and society. However, today they must further explain how profits are made and deliver a new level of transparency on business practices. Public engagement can be the driver for this change, which combines reassessment of corporate policy and continuous communication.

This will in itself create better understanding of stakeholder sentiment, which is critical to capitalizing on opportunities and protecting the organization against reputational risks. Hence, corporations must build relationships across the entire stakeholder landscape by engaging them in a two-way dialogue, and always listening before communicating.

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