Risk Assessment: The Right Environment

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Investing in developing countries, whether by way of acquisition or via grass roots start-ups, can mean large, and often non-apparent, environmental risks: in effect more spend than originally forecast.

This article discusses environmental risk in the oil and gas sector in emerging economies and model solutions.

Risks to Investors

Whether acquiring equity in an existing operation or starting-up a new one, investors need to be well-aware of the risks involved if they are to achieve their economic goals. Integrating the need to make a profit with the need to minimise environmental impact is not an easy task because of the social, political, economic and environmental sensitivities involved. Oil companies, banks and other institutions providing financing for such development could face a host of potential liabilities.

Taking over mature oil and gas fields is directly associated with potential liabilities. There might be risks associated with ageing equipment and other assets; historic soil and groundwater pollution and dumping of waste; stockpiling of hazardous materials; inadequate pollution control facilities; health and safety issues related to workforce and local population. Indirect liabilities include issues such as evolving environmental, health and safety laws that might introduce liabilities not currently apparent or there might be inherited dissatisfaction among native communities.

Exploration and Development in new frontiers brings about a different set of risks, largely related to the potential impact (or perceived impact) of the E&P activities on the environment and population. These are issues concerned with environment that tend to attract the attention of NGOs, pressure groups and the media. The risks are potential delays in the approval (and hence realisation) of projects and potential harm to the investors' reputations.

Managing Investor Risk ? Walking Through the Due Diligence Process

I. Identify the Potential Risks

For an existing operation the questions that need answers are:

? What is the extent of the concession and the physical assets that are being acquired?

? What is the current environmental, health and safety regulatory regime? What are the pertinent current legal requirements as they pertain to the operation/expansion of the field? What new regulations are imminent or are under consideration?

? What are the potential sources of impact arising from past, current and proposed activities? What is the magnitude of impacts? What regulations are breached?

? How are current operations managed? Are current management systems adequate to manage all foreseeable risks?

II. Collecting Background Information in order to make informed decisions

Prior to undertaking any investment in a new country ,it is normal to prepare an Environmental Profile of the region in which the investment will take place. The purpose of this Profile is to inform the investment decision makers of the general environmental setting with respect to baseline environmental conditions, legislation, institutional protocols and effectiveness, nature protection, population demography, availability of information, transparency and, most importantly, about the environmental and social risks. Most of the information can be collected via desk-based research, although it is sometimes necessary to corroborate key information via a country visit.

III. Understanding What Stakeholders are Involved

Since the basis of current environment and social best practise is consultation, it is important to identify and profile potential stakeholders for the investment. This includes population groups and their representatives that will be affected, the various regulating agencies and the NGOs that are likely to be involved. Stakeholder Analysis is a tool to characterise stakeholders according to their importance and the level of risk they pose to the investment. It also identifies entry points for possible collaboration with certain groups. This will enable a coherent proactive Stakeholder Consultation Strategy to be developed.

IV. Environment Impact Assessment EIA

Environmental Impact Assessment is now a well established tool for determining appropriate measures to minimise the negative effects (and maximise the positive ones) of any proposed development activity, when significant alternatives are available and for predicting the extent of the residual impacts that will occur. Most countries now administer a system of prior-authorisation of development activities based on approval of an EIA that is open to the public. The EIA Report is therefore open to public scrutiny; if done well it can enhance a company's reputation, if done poorly it can provide a focus for adverse comment.

V. Social Impact Assessment

This is a fundamental review of the social and economic drivers of the society. The SIA assesses what the significance of the investment is likely to have on the region, in terms of improved infrastructure, education, healthcare and welfare; the availability of skilled and unskilled labour; and the most effective ways of contributing to the long term well being of the region through informed employment, purchasing, marketing, contributing to community projects, professional training, capacity building etc.

VI. Public Consultation and Transparency.

This is now recognised as the cornerstone of the EIA/SIA process. Regulators are consulted on the scope of the EIA/SIA study before the process starts; the affected public are consulted with a view towards ascertaining how they will be affected and what commitments they would like to solicit from the developer.

VII. Adaptive EIA.

Treating the EIA as an ongoing process (rather than a fixed study) commencing at early stages of conceptual specification and continuing through to detailed design and construction. This involves the EIA team working closely with the design engineers to ensure that appropriate mitigation is designed into the project in order to minimise negative impacts and enhance benefits.

VIII. Social Investments

A programme of social investment is an established vehicle for companies establishing development projects in a new area. This demonstrates their commitment to the region, and helps build ties with the community as well as securing employee commitment. In recent years, there has been a move away from philanthropy i.e. donations to a more considered investment in community projects with the aim of securing long term sustainable community benefits, such as training and healthcare to be delivered through a partnership of community, government, company (investor) and appropriate NGOs. It is important to be able to demonstrate and monitor the benefits to the community of such investment.