



Business Ethical Dilemmas

The oil industry and climate change

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Median SCP

Imagine you are a top executive from an oil company, in 1996...



The Science of Climate Change



Words from the Intergovernmental Panel on Climate Change (IPCC):

“The balance of evidence suggests that there is a discernable human influence on global climate.”

IPCC Second Assessment Report, 1995

The Politics of Climate Change

UN Framework Convention on Climate Change: Objective

"Stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system."

"Such a level should be achieved within a time-frame sufficient to allow ecosystems to adapt naturally to climate change, to ensure that food production is not threatened and to enable economic development to proceed in a sustainable manner."

UN Framework Convention on Climate Change: Commitments

- ⌘ Non binding commitment by industrialised country parties (Annex I) to implement national policies and measures to return their GHG emissions in 2000 to 1990 levels.
- ⌘ All parties agreed to develop national inventories of GHG emissions and national programmes to mitigate climate change
- ⌘ Review of adequacy of engagement within one year after entry into force (1994).

Prelude to Kyoto

- ⌘ At the first COP (Berlin 1995): review of adequacy of commitments
 - ⌘ Conclusion is that they are inadequate
 - ✎ “Berlin Mandate” to:
 - ☑ elaborate policies and measures
 - ☑ set quantified limitation and reduction objectives within specified time-frames
- To be adopted in Kyoto in December 1997

A first question



Why is regulation on quantified limitation and reduction of greenhouse gases emissions a problem for the oil industry?

CO₂ emissions regulation is a threat to the Oil Industry

- ⌘ Increase of costs due to internalization of the costs of externalities
- ⌘ Diminishing demand
- ⌘ Market entry of competitive sources of energy
- ⌘ Reduced access to resources
- ⌘ Reduced social acceptance of the product and of the industry
- ⌘ Potential increase of the liabilities attached to the product

A second question

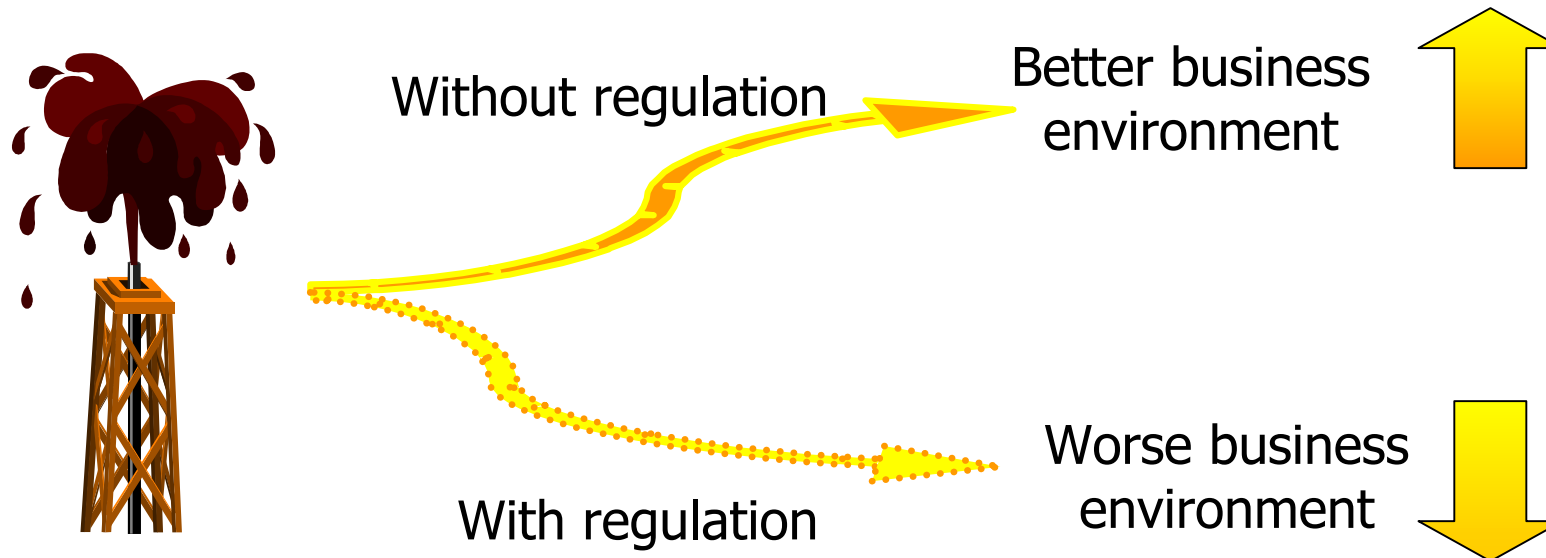


Why is regulation on quantified limitation and reduction of greenhouse gases emissions a solution for society?

CO₂ emissions regulation is a necessity/opportunity for society

- ⌘ Mitigate potential climate change and the threat for humankind
- ⌘ Switch away from fossil-fuel economy
 - ☒ Energy security
 - ☒ Decentralise energy supply
 - ☒ Less incentives for fossil fuel-driven wars
 - ☒ Reduce air pollution
 - ☒ Reduce environmental and social impacts of oil production

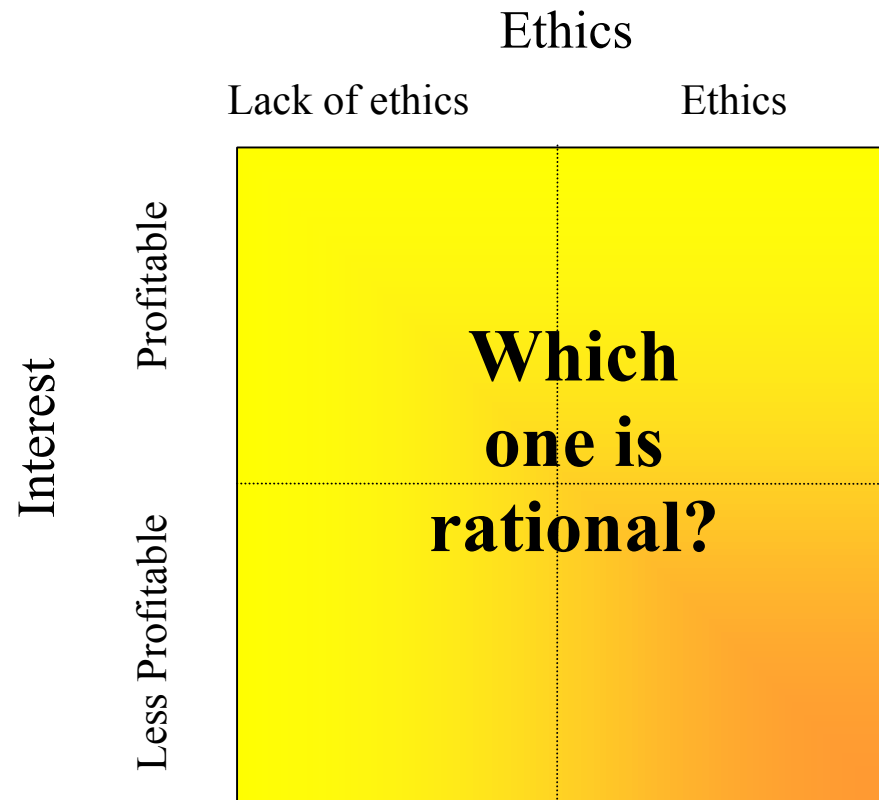
The Oil Industry Business Ethical Dilemma



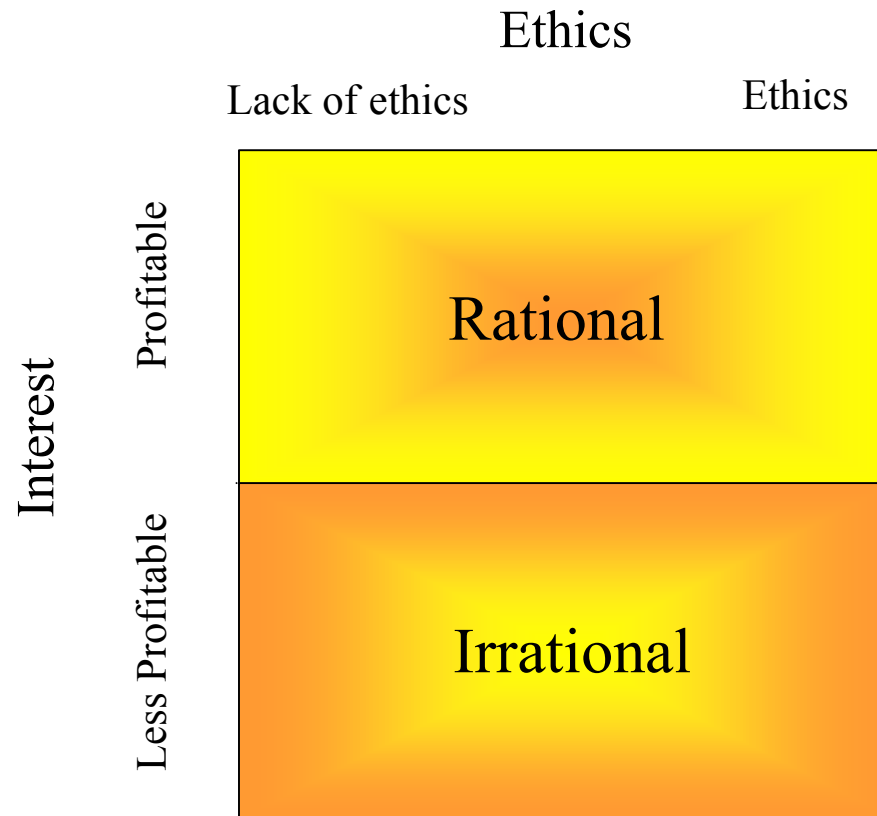
Prima facie, the regulation of CO₂ emissions represents a dilemma for the oil industry

There is an ethical dimension because the emissions of CO₂ is perceived as threatening the well being of human societies

A Matrix for Ethical Dilemmas

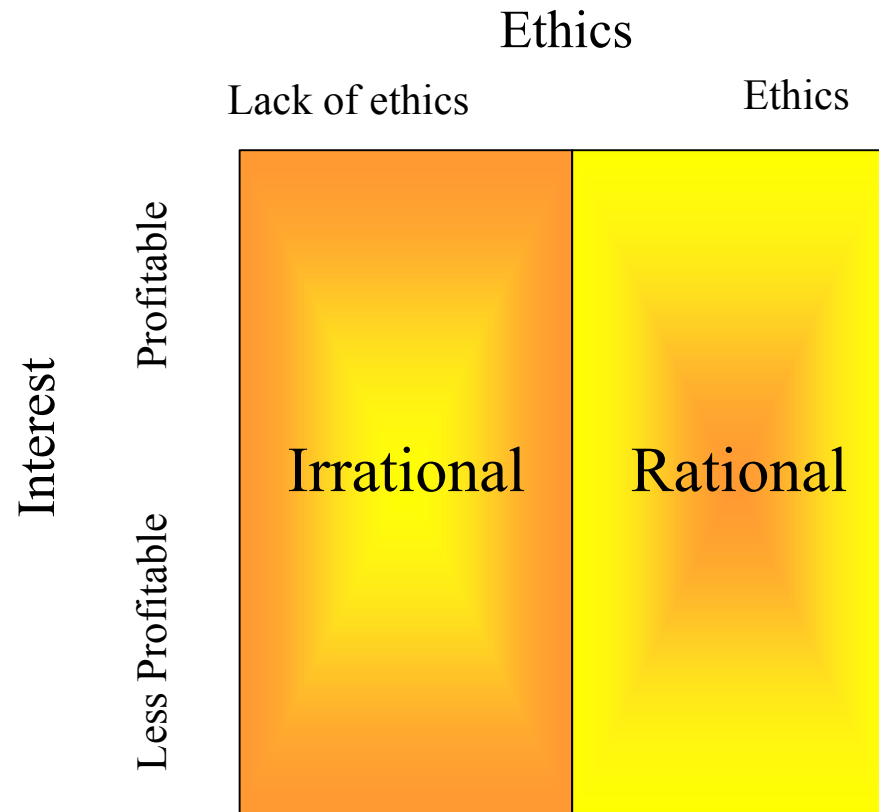


Pragmatism: Just Profits!



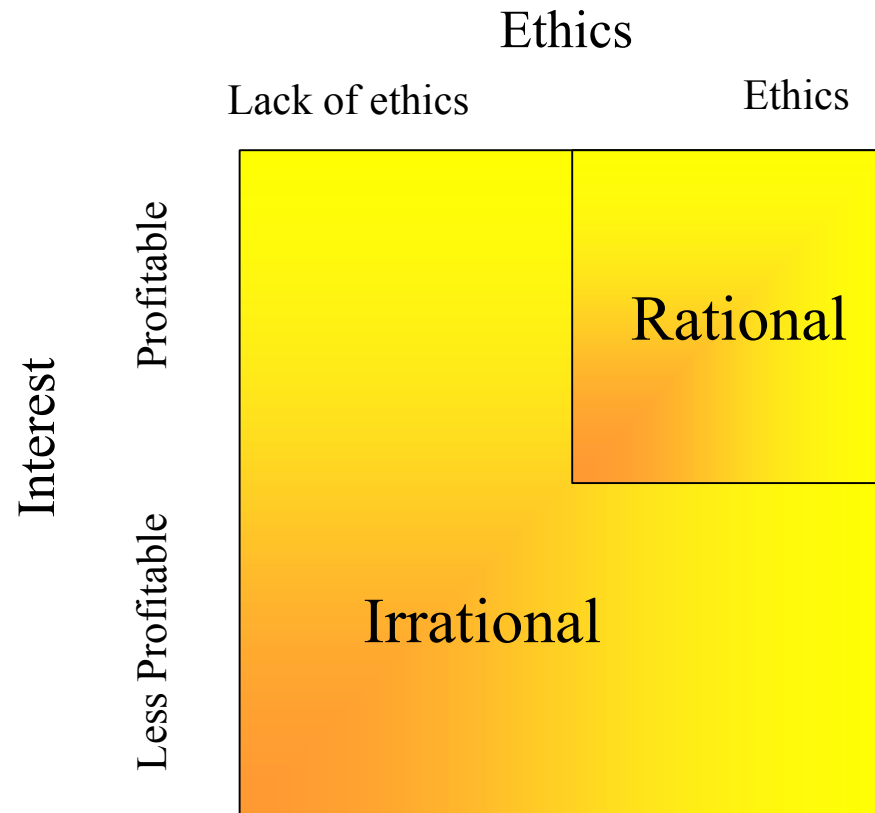
This discourse misses ethical dilemmas because it says there is no rationality in sacrificing some interest for ethics.

Idealism: Do the Right Thing!



This discourse misses ethical dilemmas because it says there is no rationality in sacrificing some ethics for interest.

Ethics Pays!



This discourse misses ethical dilemmas because it says you can always combine ethics and self-interest.

An Open Form of Rationality

		Ethics	
		Lack of ethics	Ethics
Interest	Profitable	Priority to self-Interest (venality)	Ideal (ethical business)
	Less Profitable	Irrational	Priority to Ethics (sacrifice)


That helps to think before acting,
in particular when facing difficult choices...

How does Maria propose to address the dilemma?



Maria's strategy:

Fight against action



⌘ Goal: Prevent –or delay– policy action on climate change

⌘ How?

☑ Denying the dilemma

☑ Contesting and influencing the science

☑ Influencing public perceptions

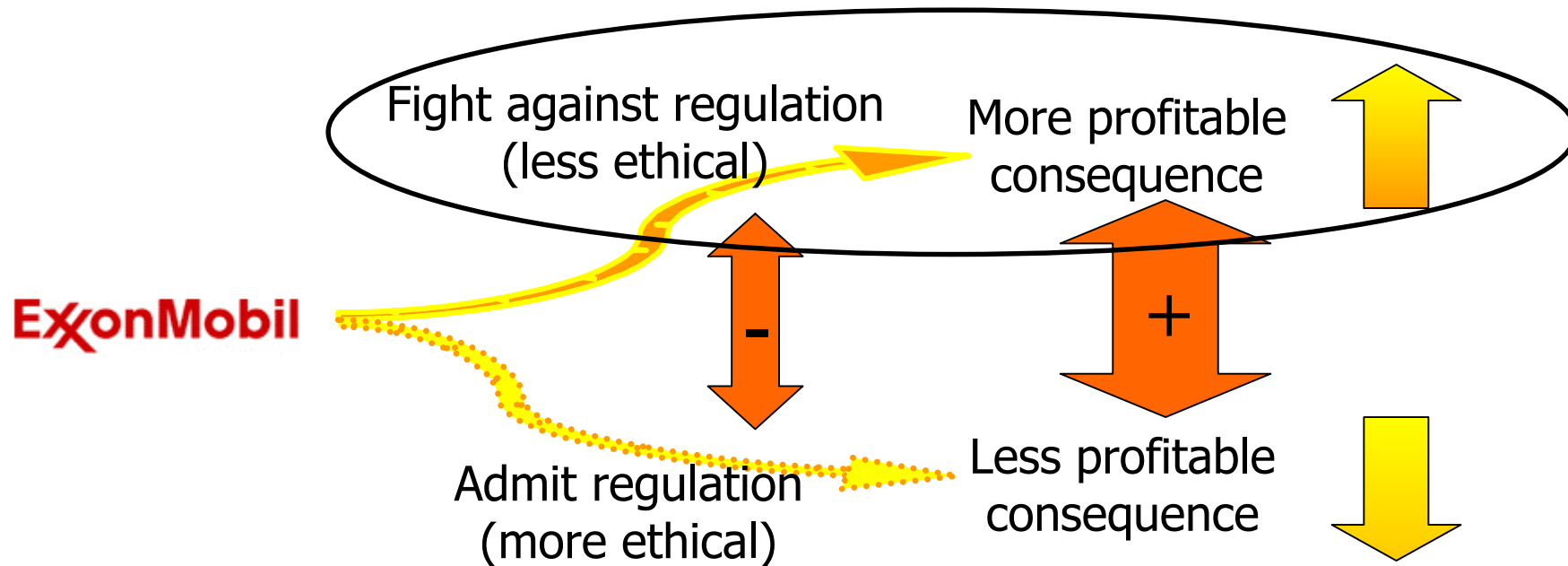
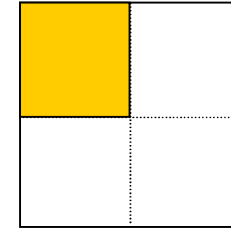
☑ Impairing policy processes

This is ExxonMobil's strategy

Tactics (Priority to Business)

- ⌘ Denial of the unethical process;
- ⌘ Emphasis of the costs of sacrifice;
- ⌘ Search for industry coalitions;
- ⌘ Influence and distortion of scientific research;
- ⌘ Influence and subversion of political and international institutions;
- ⌘ Influence and manipulation of public opinion;
- ⌘ Confidentiality of strategic choices.

Priority to Business



1. **Emphasizing the business consequences differential**
2. **Weakening the ethical differential**
3. **Confidentiality of the strategy – Bad faith communication**

By giving priority to business, ethics becomes mainly an issue of public relation

A word from Exxon's CEO

"Although the science of climate change is uncertain, there's no doubt about the considerable economic harm to society that would result from reducing fuel availability to consumers by adopting the Kyoto Protocol or other mandatory measures that would significantly increase the cost of energy. Most economists tell us that such a step would damage our economy and almost certainly require large increases in taxes on gas and oil. It could also entail enormous transfers of wealth to other countries."



ExxonMobil CEO and Chairman, Lee Raymond, 2001

Exxon's progression of statements



- ⌘ Climate change is not happening
- ⌘ The science of climate change is uncertain
- ⌘ Climate change is not human-induced
- ⌘ Climate change will not necessarily be bad
- ⌘ Now is not the good time to act
- ⌘ Policies under discussion are not the good way to tackle with the issue

Exxon's deeds (some...)


- ⌘ Key member of Global Climate Coalition:
 - ☒ Lobby US Congress against Kyoto (E.G. Byrd-Hagel resolution)
 - ☒ Advertisement campaign: Kyoto unfair to US, Kyoto won't work, economic doomsday
- ⌘ Political donations
- ⌘ Criticising and attacking IPCC science as uncertain and biased; financing 'climate sceptics'
- ⌘ Economic arguments against emission reduction policies based on self-funded economic models
- ⌘ Telling developing countries that Kyoto will "strangle economic growth"

How does Colin propose to address the dilemma?



Colin's strategy:

Stay neutral



⌘ Goal: Be prudent, stay focused, free ride

⌘ How?

☑ Accept the possibility of a dilemma

☑ Do not counter public science

☑ Announce good intentions

☑ Develop political connections

This is TotalFinaElf's strategy

A Word from ELF CEO

"The Elf Aquitaine Group is ready to commit to a reduction of 15% of its [CO2] emissions in 2010."



Elf CEO Philippe Jaffré, 1997

How does Henri propose to address the dilemma?



◀1916


Chamonix: Mer de Glace

2001 ▶



Henri's strategy:

Proactive



⌘ Goal: Taking advantage of the situation

⌘ How?:

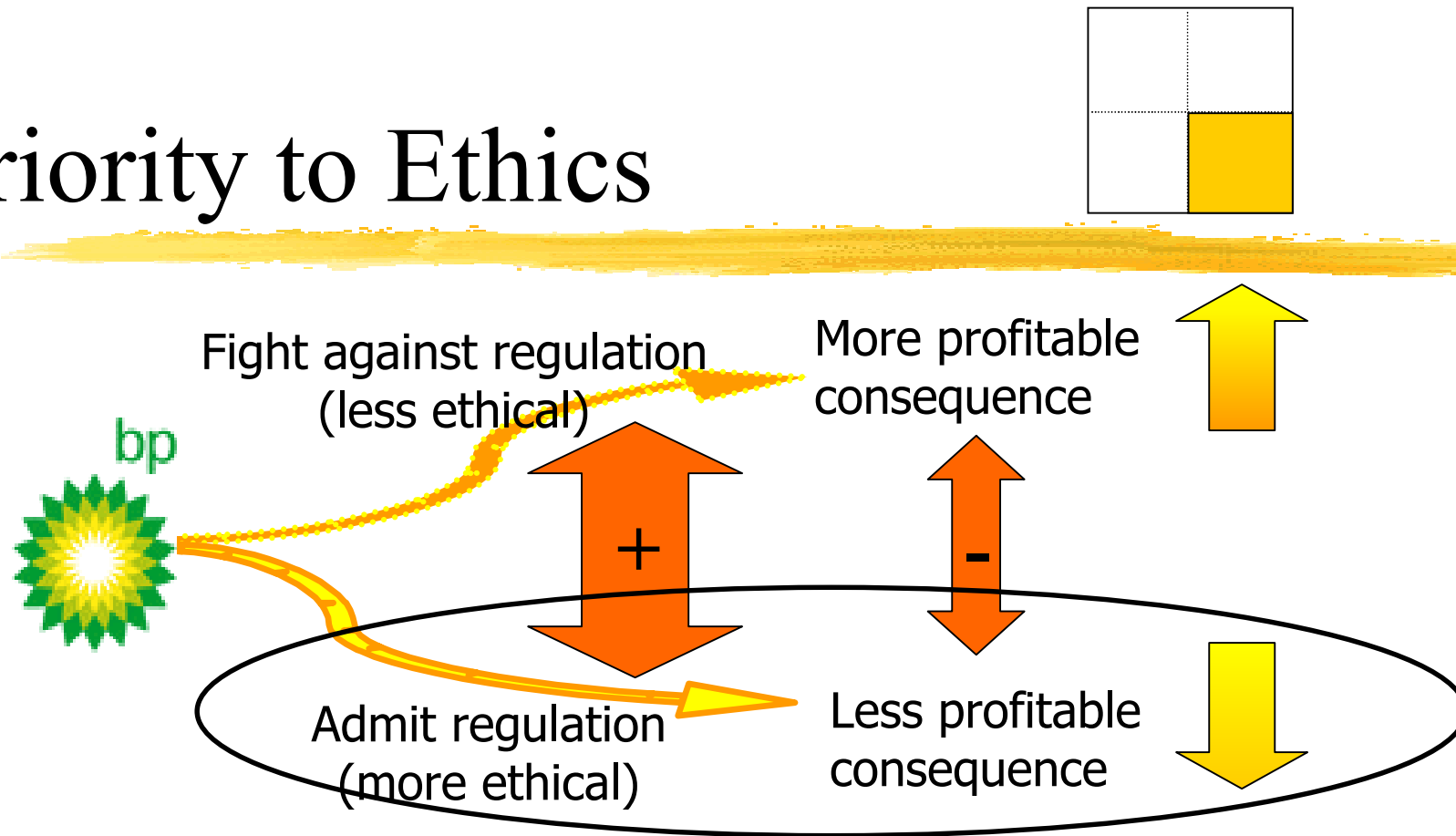
- ☒ Facing the dilemma and try to address it
- ☒ Acknowledging the science
- ☒ Communicating on their new strategy
- ☒ Participating in policy process

This is BP's strategy

Tactics: (Priority to Ethics)

- ⌘ Acknowledgment of the unethical process;
- ⌘ Mitigation of the cost of sacrifice;
- ⌘ Emphasis of long term benefits;
- ⌘ Strategic re-positioning;
- ⌘ Search for differentiation and competitive advantage;
- ⌘ Ambiguity of the sacrifice;
- ⌘ Transparency of strategic choices;
- ⌘ Making amends?

Priority to Ethics



1. **Weakening the business consequences differential**
2. **Emphasizing the ethics differential**
3. **Transparency of the strategy – Ambiguity of good faith**

By giving priority to ethics, it becomes a factor of strategic management

A word from BP's CEO

"We must now focus on what can and what should be done, not because we can be certain climate change is happening, but because the possibility can't be ignored. If we are all to take responsibility for the future of our planet, then it falls to us to begin to take precautionary action now."



BP Chief Executive, John Browne, 1997

BP's progression of statements



- ⌘ Society cares (recognition of a societal concern)
- ⌘ We are causing social damage (acknowledgement of responsibility)
- ⌘ We will modify our behaviour
- ⌘ ... and nevertheless remain profitable

BP's deeds or promises (some...)



- ⌘ Left the Global Climate Coalition for the Pew Center on CC's business council
- ⌘ Reducing BP's internal emissions (including setting up internal emissions trading scheme)
- ⌘ Focus on energy conservation (internally and with consumers)
- ⌘ Investment in solar energy business
- ⌘ Promoting the use of flexibility mechanisms

Discussion

Is there a real difference between these three strategies?

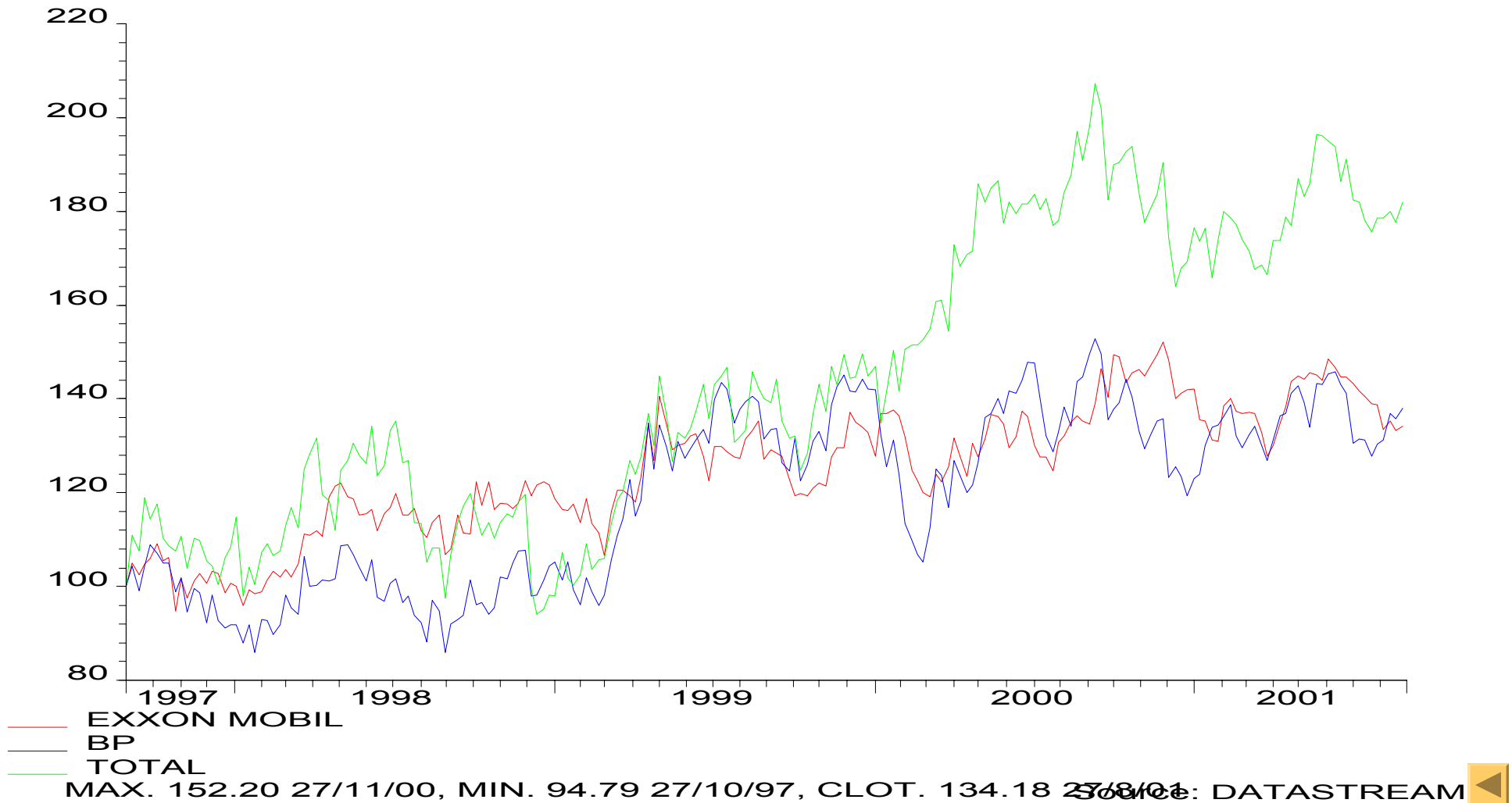
- In terms of Business***
- In terms of Ethics?***
- In terms of Management?***



Economics: Exxon vs BP vs Total

(Share Price 01/01/97 to 01/09/01)

28/9/04



Ethics



- ⌘ There is a difference
 - ☒ In terms of discourse for sure
 - ☒ In terms of actions to a certain extent
(how serious is the action needs to be demonstrated)
- ⌘ But an ambiguity remains: is this good faith or is this just public relations?

Could it be bad faith?

Could Exxon say:

"We are implementing a process that is detrimental to society but we will not change it because we make a lot of profit out of it"

Not socially acceptable 🦋

Venal actors will tend to hide why they act, and deny the dilemma.

Is this really good faith?

BP says:

"We will modify our behavior"

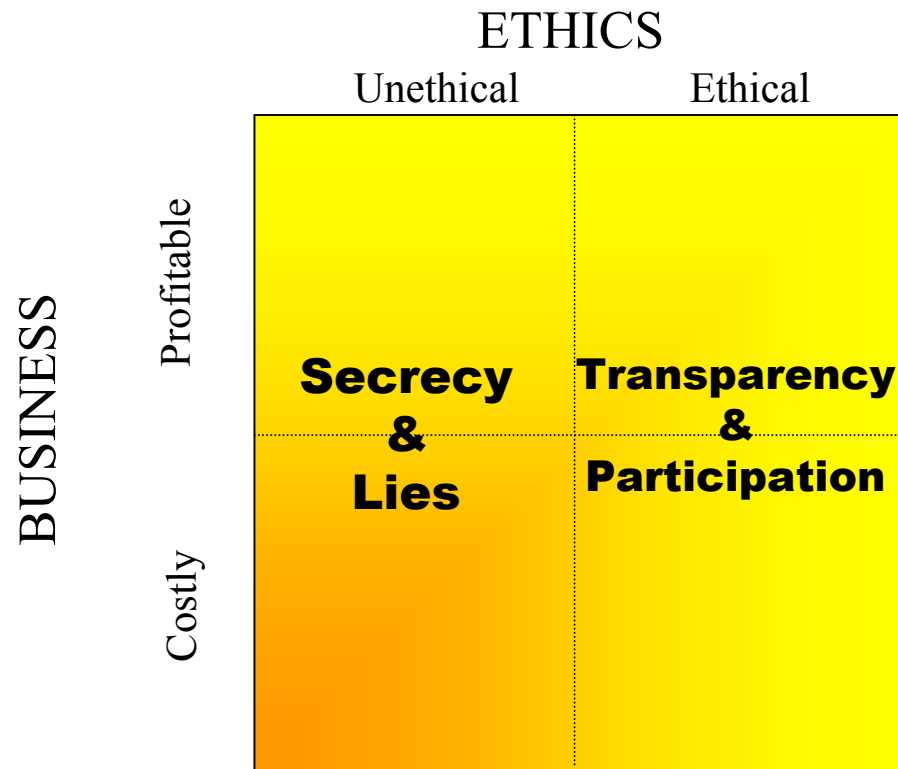
This could be merely public relations.

Are societal concerns the real motivation of BP?

Society will want to check whether such actors "walk by their talk" 

Ethical actors will tend (will have) to show that they do what they say.

Confidentiality vs. Transparency



Transparency indirectly reveals ethical behavior

Confidentiality and/or lies accompany unethical behavior

There is a big difference in terms of transparency

An Art of Surprise?

Unexpected Costs of Fighting against Society

- Society imposes increased accountability and liability;
- Value of brand name;
- Costly regulations;
- Increased organizational inertia due to confidentiality;
- Reduced internal motivation and trust due to deceptive public communication.

Unexpected Benefits of Aligning with Society

- Alignment with society may reduce liability;
- Preserved brand name;
- Exploration of alternative profitable business consequences;
- First mover on new business opportunities;
- Organizational learning process;
- Increased internal motivation and trust.

Conclusions



- ⌘ Business does influence the science and politics of global environmental change
- ⌘ Business ethical dilemmas are ubiquitous and have no simple solution
- ⌘ Recognising business ethical dilemmas is an important first step in addressing them
- ⌘ Transparency and accountability are key ingredient to more ethical behaviour

Epilogue



- ⌘ Kyoto protocol entered into force in 2005
- ⌘ GCC became inactive in 2002. William O'Keefe (former chairman of GCC and VP of API) is now CEO of the Conservative Marshall Institute
- ⌘ Exxon continues its strategy of manipulating science, public opinion and policy
- ⌘ BP total investment in solar energy over the last 6 y = US\$ 200 M = marketing budget for their new image "beyond petroleum"



Thank you!

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