



— EXPLORING KEY ESG CHALLENGES FOR THE OIL AND GAS INDUSTRY

Environmental Social and Governance (ESG) considerations and climate change concerns increasingly drive public, regulatory and corporate opinion. For the oil and gas industry, this presents some challenges worth addressing.

3 MINUTE READ

PHIL CROOKALL, PRINCIPAL ADVISOR - ENERGY

ESG provides a framework for a more resilient and sustainable way of doing business. Over the last decade, the discourse around ESG has evolved within companies, positioning it as more than just a risk management exercise. Legislation and investor scrutiny have tightened around the globe, placing ESG in the spotlight. Oil and gas companies cannot afford to neglect to have a comprehensive ESG strategy in place.

When assessing and implementing ESG, the challenges can be many and varied. Here are three prime examples:

Stretching resources beyond existing capabilities

Implementing ESG strategies can represent different kinds of challenges, depending upon the size and scale of operations of an oil or gas company. Larger companies that saw the importance of ESG have had the time, capital and employee numbers to plan ahead and set manageable goals. Mid-sized and smaller operators working in individual locations are less likely to find the process as easy.

When we look closely at the governance parts of ESG, it becomes clear that, while it might be straightforward to introduce new board positions to take charge of ESG activity, every step from that point on isn't as easy. In smaller firms, a single person might be solely responsible for everything from implementing ESG policy, collecting,

collating and reporting on ESG criteria, working with ESG rating agencies, running day-to-day operations or seeking investment opportunities. That same board member position for ESG in a larger organisation can avail themselves of more bandwidth, hiring for various roles to share the effort.

In the case of an emergency, if the person assigned to ESG has too many other responsibilities, they may not be able to do all the work required in a thoughtful and timely manner.

Spreading responsibilities helps reduce risk to operations and displays to potential investors or financial institutions that an oil and gas operator takes governance seriously. At RPS, we can support you in actions such as [creating governance trees and responsibility plans](#).

Variation in standards

One of the main challenges of the companies we speak to is the number of different reporting standards for ESG and best practices to meet. It can be hard to know which are the most relevant and appropriate for your particular business. The answer will be intrinsically linked to your activities, location, funding and stakeholder demands.

For example, a company raising money in the U.S. for an acquisition will be bound to a different set of legislation than if it chose to raise capital in Europe. Both regions have stringent rules but are subtly different and may require other or additional reporting criteria.

RPS can help companies navigate the multi-layered process of identifying and reporting to the appropriate standards. We draw upon our decades-long expertise and comprehensive knowledge of evolving international regulations and guidelines.

Lack of visibility

From a social perspective, oil and gas companies often operate in challenging and complex areas. There are numerous operational touchpoints within onshore and coastal developments where a company's activities can affect local communities. One of the difficulties in implementing a robust ESG strategy is a lack of genuine visibility for the company in the field.

ESG-related legislation is continually being introduced, reviewed, and strengthened in most OECD (Organisation for Economic Co-operation and Development) countries. More responsibility will likely be assigned to boards and executive management. One development may mean that companies must adhere to the regulations and principles

imposed by their 'home' governments and regulators, no matter where they operate. Consider the following hypothetical example. You are currently working in the head office of an oil or gas company, perhaps in Aberdeen or Houston. To obtain financing from an international bank, the nature of your operations would quite rightly be expected to meet international human rights standards. However, in-country, your company is essentially represented by a local security team, often thousands of miles away. You rely on them to interact positively with the local community. In some instances, this will be a Private Security Company (PSC) you will have chosen. In other cases, you may have no choice in your security provider as a local security force may be imposed upon your operations. Although you provide regular training and documentation on best practices, for example, you may have very little day-to-day control over the actions of these security forces. Local applications of security enforcement may differ from the requirements of the international human rights standards your ESG policy sets out.

In this scenario, visibility (or a lack thereof) ensuring you meet your ESG obligations can be challenging. Working remotely from a project site, you may lack oversight on what really happens on the ground, despite what you have communicated to the investors. How can you be sure that the ESG measures you have put in place are more effective than just a paper exercise? For example, it is possible to gain an ESG rating from an agency where it is a paperwork review. Any breaches of ESG commitments could have serious financial and reputation repercussions. We firmly believe in having a presence on the ground. Our approach is to dive deeper, with services provided by seasoned, well-travelled ESG and oil and gas industry experts. Our expertise is global, but our teams are local.

Producing documentation for **permitting and compliance, training, environmental** and **social impact assessments**, writing policies and procedures and supporting their implementation from a client's field offices are all measures that companies can rely on. We have deep expertise in conducting these thorough on-the-ground assessments to give you confidence that the reports you submit are accurate.