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**BP AUSTRALIA PTY LTD
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**Submission to the Parliamentary Joint Committee on Corporations and
Financial Services**

Inquiry into Corporate Responsibility and Triple-Bottom-Line Reporting

11 October 2005

Inquiry terms of reference

The Committee will inquire into Corporate Responsibility and Triple-Bottom-Line reporting, for incorporated entities in Australia, with particular reference to:

- a. The extent to which organisational decision-makers have an existing regard for the interests of stakeholders other than shareholders, and the broader community.
- b. The extent to which organisational decision-makers should have regard for the interests of stakeholders other than shareholders, and the broader community.
- c. The extent to which the current legal framework governing directors' duties encourages or discourages them from having regard for the interests of stakeholders other than shareholders, and the broader community.
- d. Whether revisions to the legal framework, particularly to the Corporations Act, are required to enable or encourage incorporated entities or directors to have regard for the interests of stakeholders other than shareholders, and the broader community. In considering this matter, the Committee will also have regard to obligations that exist in laws other than the Corporations Act.**
- e. Any alternative mechanisms, including voluntary measures that may enhance consideration of stakeholder interests by incorporated entities and/or their directors.
- f. The appropriateness of reporting requirements associated with these issues.
- g. Whether regulatory, legislative or other policy approaches in other countries could be adopted or adapted for Australia.

In inquiring into these matters, the Committee will consider both for profit and not-for-profit incorporated entities under the Corporations Act.

Executive summary

BP Australia welcomes the opportunity to contribute to the inquiry by the Parliamentary Joint Committee on Corporations and Financial Services into corporate responsibility. We strongly believe that the inquiry is an opportunity to help clarify the meaning of the term “corporate social responsibility” and identify the work being done by private companies in this area.

Rather than commenting on all the Inquiry’s seven terms of reference we believe our most practical contribution is to share our understanding of “corporate responsibility” and how we incorporate this concept into the work of a corporation like BP.

Secondly we would like to offer comments on the specific term of reference number 4 “ *Whether revisions to the legal framework, particularly to the Corporations Act, are required to enable or encourage incorporated entities or directors to have regard for the interests of stakeholders other than shareholders. In considering this matter, the Committee will also have regard to obligations that exist in laws other than the Corporations Act.*”

This particular term of reference suggests that there may be a case requiring government intervention to ensure business in Australia account for the social and environmental aspects of their operations.

Our perspective is that for any corporation and their Directors to be successful and sustainable in the Australian and global market place the directors, and employees of that company, will need to have a very real and clear regard for the interests of stakeholders other than shareholders. Further more, this regard will need to be deeply entrenched in the extent, scope and innovation of their business activities.

Our submission is largely about the way BP delivers corporate responsibility throughout its various operations around the world with a special focus on our Australian operations. BP regards responsibility not simply as an adjunct of business life but as something which runs through everything that a business does.

11 October 2005
BP Australia Pty Ltd

Our role as a business

BP is a business and as such has a proper and specific role in society.

Our purpose is to provide goods and services and for us that is the provision of heat, light, power and mobility for the increasing number of people who both want and can afford these things.

BP has been operating in Australia since 1920. Our current operations extend from exploring for, and developing natural gas and oil, in the greater North West Shelf area of Western Australia, to manufacturing petroleum products at our refineries in Western Australia and Queensland, to marketing fuels and other products at our BP service stations. We also have a Solar power business in New South Wales and are the only manufacturer in commercial scale production of solar photovoltaic cells in Australia. Our other businesses include energy product trading, lubricants, petroleum distribution, shipping, marine, bitumen, and aviation fuel products.

In 2004 our capital investment in Australia is ~ AUD\$11.3 billion, of which AUD\$7.6 billion is invested in fixed assets. We contribute approximately AUD\$4 billion in taxes, royalty payments and excise duties to the government and employ approximately 2200 people across seven business units. These business units are Exploration, Refining, Integrated Supply and Trading, Marketing (includes Retail, Commercial and Bitumen), Aviation, Marine and Solar. "

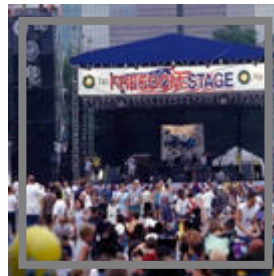
Globally we employ over 102,000 people around the world in 100 countries. Our shares make up one Pound Sterling in every seven held in UK superannuation funds. In 2004 we paid, collected and passed on some 76 billion US dollars of taxes to governments around the world. And most importantly of all, we help provide people – some 13 million customers every day – with products which fuel the basic building block of human progress: heat, light, power and mobility.

Our role in society



BP's major impact on society comes from its core business – for example in 2004, we:

- Employed 102,900 people
- Paid \$76 billion in taxes to governments
- Distributed \$6.4 billion to shareholders
- Paid \$9.6bn in benefits to employees (wages, salaries, benefit, pensions)
- Spent \$37.6bn with suppliers and contractors



However we also play a role by:

- Investing in community projects, \$87.7m in 2004
- Addressing issues such as corruption and the need for developing countries to manage major energy revenues
- Playing our role in the global community, such as by providing humanitarian aid or raising awareness of HIV/ AIDs

Corporate Responsibility – our approach

In delivering our business strategy we must act responsibly if we are to build trust and achieve sustainability. Responsibility however has become a much used and ill-defined term.

Being responsible is anything but a passing trend for the private sector. In fact at its root, responsibility flows from a company's desire to be sustainable - to outlast fashions and trends and to stay in business over many decades.

Corporate Responsibility means much more than just the set of activities which fall into the categories of charitable donations, corporate sponsorships or employee support for community groups. If that was all that Corporate Responsibility meant, then that could effectively license businesses to operate irresponsibly on a daily basis, but then to write a cheque at the back end of the process to "give something back". We believe this approach misses the essence of what a well managed company can deliver to a community and a nation.

Corporate Responsibility needs to inform our behaviour throughout the business, helping us to manage for the long term. We make investments like the North West Shelf LNG business and our refineries that continue to operate for thirty to fifty years and more, so we must have a deep involvement in and understanding of the countries and communities in which we work.

If a company is going to be sustainable it must do two things. First it must run a successful business that makes profits and invests for continued growth – this is fundamental and distinguishes business from other parts of society. Second it must be trusted and supported by those it does business with – customers, suppliers, governments, communities, informed observers and groups such as NGOs.

Trust and support are not earned simply by producing reports or saying the right things in speeches. Trust and support are earned when a company provides real benefits to those who are affected by its business. The customers get value for money. Local communities receive benefits from investment, from jobs and from the company's involvement in local activities. Suppliers benefit through winning business and learning new skills. And employees benefit through training, personal development and experience as well as through wages and pensions.

The government receives revenues from taxation and a constructive relationship with the company. Populations benefit from business's contributions to development and capacity building. Society as a whole benefits from innovations made through more efficient resource allocation as well as research and development. Our recently commissioned assessment of BP's economic impact on the Western Australian economy is an example of the depth and nature of our contribution to a regional economy (please see link to the ACIL report).

Mutual advantage

With scale and size comes an additional responsibility for companies like BP due to the potential for greater impact we can have on people's lives.

Our business cannot be sustained over the longer term unless positions of mutual advantage are struck with those who are touched by our business. The most obvious are our customers; unless our goods and services satisfy their needs better than their other choices, they will not buy our goods and services; equally our business must create a margin and the capability of growing repeat business.

These positions of mutual advantage extend beyond customers; to employees, to governments, to countries, to communities and society at large. The test of whether a business builds trust is whether it creates 'mutual advantage' in its relationships. If only one side benefits, then the other party may become disillusioned, but if both sides benefit, then the relationship continues beyond a single transaction. At BP we

believe that business should aim to build relationships of mutual advantage with all those who are touched by its activities.

If a company keeps its eyes on the goal of sustainability then it will find the right balance between self-interest and altruism. If it is too self-interested, if it does not bring benefits to others – or worse if it actually breaks laws or ethical codes – then it will not survive over the long term. But equally, a company will also fail if it neglects its shareholders and makes the mistake of taking over roles that properly belong to governments and social services. Indeed if it goes bankrupt or depends on subsidy, it becomes a social liability rather than a social asset.

Transparency

Another important factor in creating trust is transparency – being open about challenges and shortcomings as well as achievements. We strongly believe that openness is the best approach for business. People value a company's achievements more if they know they can trust that company, and they will trust the company if it is open about its difficulties. In short, cover-ups corrode trust - transparency builds trust.

This is why each year we publish a report called the **Sustainability Report**, looking at all aspects of how our performance affected our prospects for long term sustainability. Over the years in which we have been reporting on this area we have progressed from producing a relatively limited review giving data on non-financial activities, such as emissions and community investment, to a much fuller account of our achievements and challenges.

It's an attempt to provide a full, holistic, picture of the company's activity – from the business achievements and environmental advances that we are proud of - through to difficulties, shortcomings and the problems with which we are still grappling.

www.bp.com/sustainabilityreport

Legal compliance

At its most fundamental level, responsibility means obeying the law – complying with the numerous laws and regulations that govern our operations in each country and with relevant international law. Legal compliance is far more than a box ticking exercise. It makes complex demands and requires highly developed processes. In a large refinery, for example, there may be as many as a million regulatory requirements to be tracked, executed and checked. In finance, the Sarbanes-Oxley legislation has been introduced to tighten internal controls and financial disclosure requirements.

Being a progressive operator

We believe responsibility means more than keeping to the rules. We believe it means behaving in a consistent way around the world, being driven by the Group's values as well as by the growing external expectations placed on large corporations, and using our increasing scope and scale to improve continually the way we run our business. This is why we have developed our code of conduct, informed by our group values, as well as selecting certain areas for mandatory group standards.

We also seek to spread best practice, such as in the way we recruit and treat our people, purchase goods or manage our environmental impacts. These all directly influence the way we are viewed by society. We are also involved, with our various partners, in developing new products and technologies to serve our customers' and society's needs. Both legal compliance and being a progressive operator are aspects of what we term 'responsible operations'. They lie within a 'sphere of control' within which we control the choices made and are accountable for the outcomes. Through responsible operations we are able to generate considerable benefits for society – taxes, salaries, dividends, capability development and a range of essential products.

Code of conduct

One of the key areas of progressive operation is our commitment to integrity across all of our businesses in all parts of the world. Integrity is at the heart of long term business success, and wherever we are, we have clear rules.

With operations taking place in 100 countries, with many different prevailing laws and regulations, it is important for BP to set clear global standards of ethics and behaviour so that our actions are consistent around the world. We have taken a new step forward in this regard this year with the publication to all employees of a Code of Conduct setting out expectations in more detail than ever before. The Code covers a range of areas. It contains rules on safety. For example:

- We will never engage in (and we will always report evidence of) child labour or forced labour.
- We will never allow factors such as race, colour, religion, gender, age, national origin, sexual orientation, gender identity, marital status or disability to affect our judgment on the recruitment, selection, development and advancement of employees. If we operate in a country where the culture or laws compel our business partners to discriminate on these grounds, we will continue to nominate the best candidates for positions even if we know they will be rejected.
- We have clear rules around the acceptance and giving of gifts and entertainment, which can have a proper and useful role in business relationships but which can, in the absence of clear rules, create the reality or perception of improper influence.
- We will not permit so-called "facilitation payments" even for nominal amounts, either by our employees or anyone acting on our behalf. Facilitation payments are payments made to secure or speed up routine legal government actions, such as issuing permits or releasing goods held in customs. In certain parts of the world they are regarded as routine, but corruption is the enemy of development and human progress and we are committed to transparency in all our dealings.
- We do not participate in party politics although we seek constructive relationships with governments and takes part in relevant debate.

The Code's value does not lie in producing it, but implementing it. The prize is for BP to be recognised as a company with clear and consistent standards, and therefore a company you can trust to do the same thing wherever you encounter it in the world.

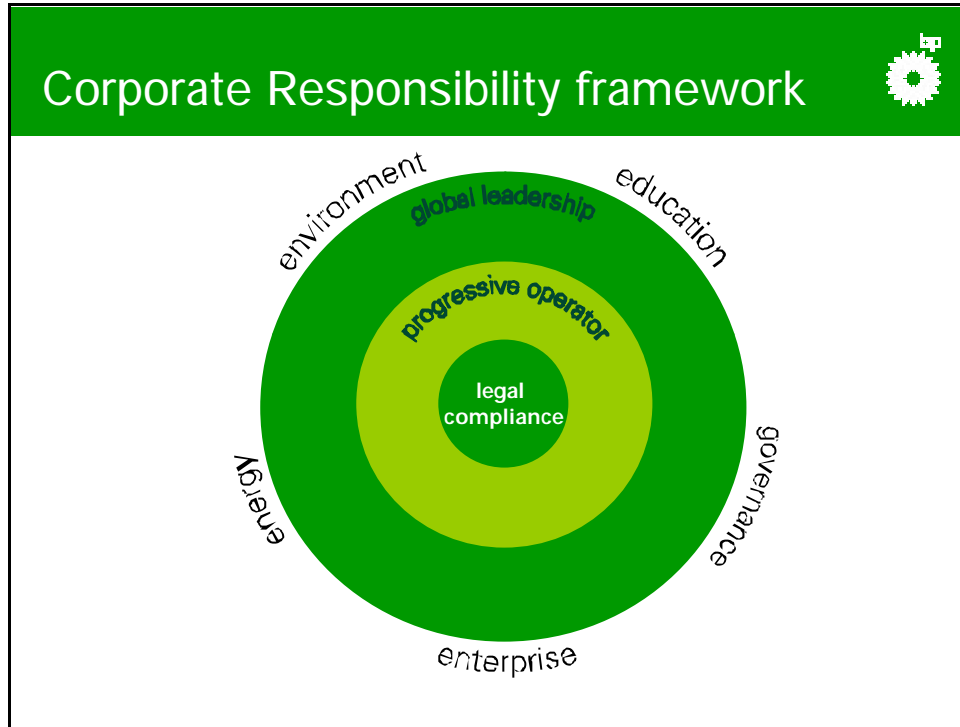
Global leadership

At a further level, responsibility prompts us to play a part in helping to solve global challenges that are directly relevant to our long-term business strategy. Here we work within 'our sphere of influence' where we do not control outcomes because responsibility is shared. In this sphere, we work with governments, business partners and civil society, using our skills and resources in an effort to deliver better outcomes.

There are five themes on which we chose to focus each of which is rooted in our core business.

An example of such action has been around the **environment**. We chose to take a lead on the issue of climate change because we believed there was a clear case for taking precautionary action. Since then we have not only reduced our own greenhouse gas (GHG) emissions but have taken an active role in the global debate and resulting actions on climate change. This work has also helped us plan the growth of our natural gas businesses, recognizing that gas is an important bridge towards the lower-carbon world of the future.

More recently, again in line with our business strategy and growth, we have recognized the need to make a more focused and inclusive contribution towards social and economic development. In 2004, we reviewed our role in the communities where we operate, acknowledging that, because of the scale of our business, our impact often reaches beyond the local community to the regional and, sometimes, the national level. Our review concluded that we should continue our existing focus on **education** and support for appropriate learning initiatives; and, in non-OECD countries where we operate, extend our involvement in **enterprise development** and seek to expand access to modern **energy** services.



The fifth and final area in which we seek to use our influence, where it is legitimate, is the promotion of good **governance**. Here we identify opportunities to support our host governments as they seek to manage the resource wealth we help to create.

BP and Development – our role in Revenue Management

In addition to the way BP manages its business operations and our involvement in community investment programs, we also aim to work with governments in managing the impact of the resource wealth we create. In our upstream business, our investments significantly increase government revenue in some countries, creating opportunities for faster development. However, historically such windfalls have often been associated with macroeconomic instability, exchange rate over-valuation and corruption.

To help realise the opportunities for development and mitigate such risks, we aim to work with host governments to address the challenges of resource revenue management

Development • our role in revenue management



Windfall revenues from oil and gas have sometimes de-stabilized economies. We work to ensure the revenues from our work provide real benefits for populations, including working with host governments as they seek to manage revenues from energy projects.



We are committed to the principle of transparency over oil and gas revenues – publishing payments to governments.

- We take part in the Extractive Industries Transparency Initiative (EITI) which promotes transparency.
- We signed an agreement in Azerbaijan in 2004 to put the EITI into practice.



We promote understanding about revenue management,

- We ran a workshop in Azerbaijan for people with experience in many countries including Trinidad and Tobago, Colombia and Indonesia
- We are supporting a Centre for Resource Revenue Management at Oxford University, led by a BP-endowed professor.

BP part of the global community

As well as developing programs of community investment and designing our business activities to have a positive social impact, we also respond to particular events and issues where they relate to our work or where we can make a positive difference.

Being a part of the global community



As well as scheduled community investment programmes, we respond to events and issues as they arise or affect our business

Humanitarian Aid – responding to immediate need

- In 2004 BP contributed \$3.6m in aid following the Asian tsunami, Hurricane Ivan and other disasters.
- BP employees donated over \$1.6m for the tsunami appeal
- BP donated \$1bn to fund a Hepatitis B inoculation programme for 80,000 teenagers in Russia

HIV/ AIDs – responding to a global epidemic, year after year

- Raising awareness through information and discussion, working with NGOs – eg with Family Care International in Indonesia
- Developing our policy
 - Confidentiality, respect and tolerance – employment and promotion on merit alone
 - No compulsory testing, though voluntary testing encouraged



Three Australian case studies

1. Energy

Breathe Easy; reducing petrol sniffing amongst remote communities

Like many issues affecting the lives of Indigenous peoples, petrol sniffing is seldom acknowledged as a problem warranting attention until enough people start to die from its devastating effects. However, across Australia petrol sniffing is an everyday feature for many remote Indigenous communities, killing and permanently disabling a significant proportion of its young people. More than simply representing a product misuse issue, employees within BP Australia felt a moral obligation to do more to help alleviate this devastating problem but were not sure where to start.

Embarking on what has become a journey of discovery, BP in conjunction with government agencies spent time visiting the hardest hit communities within Central Australia speaking directly with young people who sniff petrol. We also spoke with respected Elders to establish what if anything the company could do to make a tangible difference, focusing on more than the simple act of injecting money given the huge resources and effort already in place through various government programs.

Because of BP's performance bias, its efforts were deliberately focused on bridging gaps or overcoming barriers that appeared to be holding back significant progress.

The key to this initiative was the way BP went about engaging with the relevant communities and stakeholders, being careful not to be everything to everybody but rather to drill down and find the space where BP through its operational capacity could make a material difference to the harm caused through petrol sniffing.

BP's response was to develop a three pronged approach with the following results in one region during 2004.

Deterrents to sniffing

Result – development and distribution of an un-sniffable fuel Opal to 60 remote communities

Diversions activities

Result – successfully redirected an initial 26 remote youth away from misusing petrol onto return to school

Development pathways

Result – 17 young people who previously sniffed petrol remaining at school during 2004

2. Enterprise

Vocational Education and Employment Initiative within BP Retail

In this example BP takes the words of diversity and inclusion and turns them into actions; actions that our customers can experience, actions that benefit communities where we operate, actions that benefit directly our business performance.

For the retail business in Australia this approach began in 2003, when it decided to take the sentiment of diversity and inclusion and convert it into a business driver aimed at improving the retail experience for customers especially when interacting with our retail staff.

It did this by tapping into a completely new talent pool, Indigenous candidates, who previously had not been successful within BP's standard selection avenues. By aligning recruitment needs with community employment needs, skilled Indigenous candidates were taken on initially as trainees, and then employed.

This approach was trialled initially in two cities, Townsville and Sydney, with 12 recruits, with great success in terms of decreased staff turnover (average of 70% retention) as well as positive changes to team morale.

To extend the scope and momentum of this initiative nationwide, BP Australia in early 2005 forged a partnership with the Australian Federal Government Department of Employment to recruit a further 20 recruits across the rest of the company's retail network. This target was achieved in July 2005 (five months ahead of time)

This commitment is supported through \$160,000 in government funding to provide staff with cross cultural awareness training and a mentoring program to assist recruits and BP make the path to employment a smooth transition.

In signing this contract, BP was also invited by the Federal Minister of Employment Kevin Andrews to become one of only a handful of Indigenous Business Leaders recognised and promoted as model employers by the Government.

3. Education

Roebourne Community Development for Change

Roebourne is a remote Pilbara community 1,500 kls north of Perth and 60 kls from Karratha. Karratha is in the centre of the north west mining and gas developments with skill and employee shortages. It is also where the North West Shelf LNG project is located. BP is a one-sixth owner of the project operated by Woodside Energy on behalf of BP and its fellow joint venture partners. Roebourne is a predominantly aboriginal community of approximately 1,200 people administered through the Roebourne Shire Council in Karratha. A particular historical Aboriginal death in custody in Roebourne (<http://www.deathsincustody.com/jp-index.html>) started the Royal Commission "Aboriginal Deaths in Custody". Since that Commission nearly 15 years ago many Roebourne Elders acknowledge the situation is little changed. School truancy is very high (50%); many school leavers cannot qualify for apprenticeships because of poor literacy; drug and alcohol misuse is high in the community causing many applicants to fail employment conditions. The community has employment opportunities in which it is failing to participate for the same reasons.

*"It is a sad fact that Aboriginal Society...is not a successful society. There are numerous indications that our communities are severely dysfunctional
Our people die more than 20 years earlier on average than other Australians
Our health is far the worst of any group in the Australian community
Our people suffer from diseases that other Australians simply do not have
We are most vulnerable to new health threats like AIDS
Our children do not participate in the education system anywhere near as successfully as other Australian children
We are over-represented in juvenile justice system, in the criminal justice system and in jails
There is more violence amongst our people than other communities in Australia"*
(Noel Pearson – Our Right to Take Responsibility 2000)

In 2005 BP formed a partnership with the Nglarluma and Yindjibarndi groups supporting a community project aiming to assess key basic life skill issues for the Roebourne community with a strong focus on Education. The scoping assessment is conducted by the very own community people from Roebourne and the results of the assessment will enable the community to develop options and design programs suitable for the indigenous communities living in Roebourne. The scoping assessment is nearly complete and will recommend an ongoing program of work on a higher scale. Whilst BP decided to support the scoping assessment on its own, the recommendations emerging from the scoping assessment will require participation from all key players such as local government, industries, our joint venture partners and other groups in the region.

Summary

- We believe changes in law to enable corporations to have regard for stakeholders other than shareholders are not necessary.
- Government intervention is likely to restrict commercial opportunities to flourish as part of a sustainable marketplace. There is a potential for legislation to divert scarce resources amongst corporate leaders towards reporting requirements as opposed to 'doing' and embedding the work within a company's culture.
- Each company will have its preferred approach to resolving what corporate responsibility means to their organisation, their employees, their customers and the communities it touches. BP would argue that failure to address this question will lead to suboptimal performance and may well jeopardise the enterprise's ultimate survival.
- We believe responsibility also means ethical behaviour, legal compliance, diversity and inclusion, safe and responsible operations.
- There is a huge scope for corporations to choose how to behave in those areas. Whether or not companies send a cheque to their local art gallery or to their local football club, at the end of the year, such activities pales into insignificance compared to a company's performance on the above.
- For smaller companies e.g., those in BP's supply chain - it could create additional distraction, red tape and overheads. This is not conducive to a vibrant SME sector, the source of considerable innovation and job growth in Australia. In addition, substantial amounts of taxpayers' money would be needed to create the systems to monitor companies' adherence to such regulation.
- BP as a whole, and BP in Australia, has a range of processes, objectives, milestones and actions designed to ensure BP is complying with our own Code of Conduct and business strategy. Our definition of sustainability is much broader than just implementing social projects. Regulation on CSR, no matter how well intentioned, may well produce less effective and mutually beneficial outcomes than the path BP is now set on.
- Our examples demonstrate the importance of CSR being based on business drivers and not the threat of government intervention.
- BP already reports substantial amounts of data on our social and environmental performance
www.bp.com/sustainabilityreport

Signed for and on behalf of BP Australia LTD

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Further reading:

- a) 3 speeches delivered by BP Australia's business leaders in WA focussing on Economic, Environmental leadership and Corporate Responsibility

http://www.bp.com.au/news_information/press_releases/The_Future_of_Energy_in_WA.pdf

http://www.bp.com.au/news_information/speeches/WA_business_breakfast_030805.pdf

http://www.bp.com.au/news_information/speeches/ResponsibilityandLeadership.pdf

- b) BP Australia Triple bottom line report for 2001 and 2002

http://www.bp.com.au/environmental_social/2002_report/default.asp

http://www.bp.com.au/news_information/press_releases/triple_bottom_line_report.pdf

- c) BP Australia social and environmental brochures



Sustainability_brochure.ZIP (4... Environmental_%20Brochure.ZIP (...)

- d) ACIL report

http://www.bp.com.au/news_information/press_releases/Billion_Dollar_Boost_report.pdf

- e) Code of conduct

http://www.bp.com/liveassets/bp_internet/globalbp/STAGING/global_assets/downloads/C/code_of_conduct_en_full_document.pdf