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Social responsibility and resource extraction: Are Chinese oil companies different?

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ABSTRACT

In order to meet China's rapidly increasing demand for oil, Chinese oil companies have been investing in oil production around the world. This article addresses one specific aspect of the more generalized fears expressed about China's increasing demand for natural resources which is the impact that its oil companies will have on the corporate social responsibility (CSR) movement. In doing so, it limits its analysis to the three main Chinese oil companies: the China National Petroleum Corporation (CNPC), the China Petroleum and Chemical Corporation (Sinopec) and the China National Offshore Oil Corporation (CNOOC) and their investments in sub-Saharan Africa.

While acknowledging that Chinese oil companies are unlikely to push resource-rich governments to promote democracy or respect human rights, fears of their negative impact on CSR in the resource extractive industries are misconceived and overblown. Such fears are based on fundamental misconceptions of what CSR can do and how much its Western proponents have achieved. They are also based on misconceptions of the role of Chinese oil companies in global energy markets and they do not withstand a critical comparative evaluation of the respective CSR performance of Western and Chinese oil companies. In addressing the question posed in our title – are Chinese oil companies really different on CSR? – the answer is yes, but the differences are not all that big nor do they matter all that much.

Introduction

From 1999–2009, China's oil consumption nearly doubled from 4,477,000 barrels per day (b/d) to 8,625,000 b/d with almost half of this oil imported (BP, 2010: 11 and 21). China's oil consumption is projected to reach almost 9.6 million b/d in 2011 (EIA, 2010: 3). The International Energy Agency (IEA) forecasts that China will account for 43% of the total projected growth in world oil demand from 2007–2030 (IEA, 2008: 97) while the Energy Information Administration (EIA) anticipates that China will depend upon imported oil to meet 72% of its total demand by 2035 (EIA, 2010: 8). In order to meet both China's rapidly increasing demand for oil and to diversify its sources of energy away from the Middle East, Chinese oil companies have been investing in oil production around the world including sub-Saharan Africa.

The greater international profile of Chinese oil companies has sparked a number of fears. Geopolitically, some analysts fear that the West is "losing" Africa. Western oil companies complain that the Chinese companies' access to cheap capital provides them with an unfair advantage. Non-governmental organizations (NGOs) worry that the Chinese embrace of repressive regimes will undermine progress on human rights and democratization and promote corruption. Some go so far as to accuse the Chinese in Africa of being neo-colonialists who merely extract natural resources and flood the continent with cheap manufactured products (cited in, if not supported by Lee and Shalmon, 2008: 109; McBride, 2008: 4; Shaffer, 2009: 85; Taylor, 2009: 1–2).

This article addresses one specific aspect of these more generalized fears about China's increasing demand for natural resources which is the impact that its oil companies will have on the corporate social responsibility (CSR) movement. In doing so, it limits its analysis to the three main Chinese oil companies: the China National Petroleum Corporation (CNPC) and its Petro China subsidiary, the China Petroleum and Chemical Corporation (Sinopec) and the China National Offshore Oil Corporation (CNOOC) and their investments in sub-Saharan Africa. It is plausible that some of the analysis and argumentation developed here could also apply to other Asian state-owned oil companies like Malaysia's Petronas or to Chinese mining companies operating in sub-Saharan Africa. Such relevance would, however, have to be demonstrated empirically, something which this article does not claim to do.

Put simplistically, the fear is that China's lack of concern for such things as democracy, human rights or revenue transparency and its willingness to invest in "pariah states" like Myanmar and Sudan

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provides an increasingly compelling alternative for resource-rich countries to Western investment. Ultimately, authoritarian rulers will turn away from CSR "world leaders" like BP or Shell and embrace Asian state-owned "bottom feeders" who provide cheap funding and do not bother them with inconvenient demands for good governance (Pegg, 2006).

While acknowledging that Chinese oil companies are unlikely to push resource-rich governments to promote democracy or respect human rights, the fears of their negative impact on CSR in the resource extractive industries are misconceived and overblown. Such fears are based on fundamental misconceptions of what CSR can do and how much its Western proponents have achieved. They are also based on misconceptions of the role of Chinese oil companies in global energy markets and they do not withstand a critical comparative evaluation of the respective CSR performance of Western and Chinese oil companies. In addressing the question posed in our title – are Chinese oil companies really different on CSR? – The answer is yes, but the differences are not all that big nor do they matter all that much. Increased Chinese oil investment in sub-Saharan Africa will not be helpful in addressing corruption, human rights abuses or authoritarian rule but, ultimately, the responsibility for utilizing oil wealth wisely resides with African governments and their citizens and not with Chinese oil companies.

Misplaced faith in corporate social responsibility

Although CSR has been criticized from a number of different perspectives (Blowfield and Frynas, 2005: 505–506; Pegg, 2006: 251–252), its growth has been remarkable. Yet, this growth has been reached without much hard data on what CSR can actually achieve. As Blowfield and Frynas (2005: 506–507) put it, "the fact is that we know very little about the impact of CSR initiatives in developing countries, and what we do know raises questions about both the efficiency of CSR approaches and the tangible benefits for the poor and marginalized… ." Similarly, Peter Newell (2005: 556) points out that the most that can be said with certainty is that "CSR can work, for *some* people, in *some* places, on *some* issues, *some* of the time." The point here is not that all CSR is bad or ineffective, but that the exaggerated hopes placed in it are not supported by much empirical evidence.

When it comes to CSR and the resource extractive industries, there are arguably two main sets of problems that should induce caution in expecting it to transform larger dynamics in countries like Angola, Equatorial Guinea and Nigeria that have largely mismanaged their oil wealth or managed it to the exclusive benefit of a very small number of elites. First, on a more micro-level, there are a variety of problems that greatly limit what oil companies can achieve with CSR initiatives. As George Frynas (2005) convincingly demonstrates, such problems include cultural differences, oil companies frequently working in difficult or challenging contexts, having CSR projects driven by the short-term expediency of enabling work to proceed rather than long-term development needs, having CSR projects driven by the priorities of employees rather than host communities, engaging in superficial and inadequate consultation with local residents and a failure to coordinate CSR activities with larger regional development efforts. While there is evidence that some oil companies (Shell in Nigeria is the most commonly cited example) have learned from past CSR mistakes and improved their CSR performance, the fact remains, as Marina Ottaway (2001: 53) puts it, that oil companies are highly specialized entities whose "strengths lie not in devotion to democracy and human rights but in finding, extracting and distributing oil…taking on the role of imposing change on entire countries does not fit the nature of these organizations."

While many of the problems noted above could potentially be addressed through learning and reform, there is a much larger macro-level problem. As George Frynas (2005: 596) observes, "CSR initiatives focus on the micro-level effects of the oil industry on specific families or communities and fail to address the macro-level effects… ." Although the evidence supporting various strands of the resource curse thesis is increasingly contested, CSR does nothing to address any of the posited macro-effects of the resource curse such as increased corruption, slow or negative economic growth or sustaining authoritarian regimes in power. Frynas thus concludes that "the current CSR agenda fails to address the crucial issues of governance and the negative macro-level effects that multinational firms cause in host countries… . There is a real danger that a focus on CSR may divert attention from broader political, economic and social solutions to such problems" (2005: 598). Daniel Litvin similarly notes that while Shell in Nigeria can make progress rooting out corruption amongst its own employees, there remains "the broader issue of how government agencies spend oil revenues, a corruption problem from which Shell, as the main oil provider, cannot entirely disassociate itself, and which is far more significant in its effects on Nigeria" (Litvin, 2003: 271).

One reason that the concern over Chinese oil companies and CSR is overblown is that the hopes placed on CSR far exceed the limited benefits that even carefully designed CSR initiatives can generate. Such debates over which corporations are or are not CSR leaders also risk diverting attention from where it properly belongs on sovereign state governments. Peter Muchlinski (2001: 44) makes this point in terms of human rights but it can be extended to CSR more generally: "the extension of human rights responsibilities to corporations makes them appear more important than they should be…in treating corporations as if they were quasi-public institutions there is a risk that the continuing responsibility of states, as the prime movers behind violations of human rights, will be downplayed."

The limits to CSR among Western oil companies

Although Western oil companies loudly proclaim their support for the Universal Declaration of Human Rights, highlight their participation in such initiatives as the Extractive Industries Transparency Initiative (EITI) and the UN Global Compact and issue annual reports on their CSR activities, they have repeatedly set sharp limits on just how far they will go in terms of CSR. Perhaps the ultimate limit that defines the whole CSR concept is its voluntary and non-binding character. As Ronen Shamir (2004: 647, 660) puts it, "The single most distinctive common denominator of these corporate-oriented and corporate-inspired notions of social responsibility is the voluntary, nonenforceable, and self-regulatory meaning of the term…corporate voluntarism has become the corporations' most sacred principle… ." Ricardo Soares de Oliveira (2007: 307) similarly highlights "the penchant at almost every single stage for unenforceable, vague, long-term, voluntary 'codes', and the explicit refusal of the few measures that could guarantee the outcomes that are supposedly sought."

In their engagements with NGOs, international financial institutions and others, Western oil companies have moved far beyond the seemingly sacrosanct principle of CSR being voluntary and actually established clear and unambiguous limits as to just how much reform they are willing to accept. Royal Dutch/Shell which proudly notes that it became the first energy company to declare publicly its support for the Universal Declaration of Human Rights in 1997 has been a corporate leader in the lobbying effort against the proposed