



COVALENCE ANALYST PAPERS

Off-shoring problems: A case of Total SA in Burma

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Abstract

In this paper, I present a unique case of how off-shoring would either destruct or construct third world countries. The ongoing thesis touches on the ever intriguing question on how multinationals could impact on a non-industrialized country. With the prospect of emerging economies making sturdy progress to catch up with their already industrialized counterparts, there are more than enough tasks in terms of economic development to be done. More concretely the paper gives a succinct analysis on the activities of a consortium consisting of Total Oil Company (France) and Unicol Corp (USA) in Burma since 1992. The company has invested heavily in oil mining in that country amidst alleged serious human rights violations through support of a military junta regime. Why this case is particularly interesting is because of the fact that Western countries led by the US have passed a package of economic sanctions on the Burma military regime in bid to force it to surrender power back to the people. However, majority of major multinationals among them being Unicol Corp have pulled out of Burma, Total still operates there. A call from international human rights activists urging Total to pull out of Burma has fallen on deaf ears. Total is a major job opportunity creator in Burma--a position the company has vehemently defended. However, human rights activists see Total as not helping the plight of the Burmese because revenue collected through taxation only props the military regime grip on power. Total, surrounded by this dilemma to pull out or not to, stands a sharp test of its ethical business practices.

1. Introduction

Many multinationals operate in countries with undemocratic governments, or in regions of armed conflict. However, multinational corporations and companies might have a positive impact on these societies some usually end up violating human rights. Where this happens, multinational companies are allegedly consistent suppliers of foreign currency to brutal regimes with appalling human rights abuses and general climate of reducing standards. These companies perpetuate and prop what otherwise are illegitimate regimes with record levels of human abuse through finances.

Out of my keen interest on the topic of corporate social responsibility, I have resolved to take a closer look at the oil drilling activities of Total Oil Company (hereafter Total) in Burma. In this paper, I would take a closer look at social, political and economic consequences of Total on the Burmese community as a whole. I would ask the question of how Total has influenced life in Burma. I will also address the question of what Total image really is in the eyes of the Burmese population. In order to address adequately my topic of choice, I would aim to answer the following research question: what contributions has Total made to the Burmese to warranty its stay there in spite of both local and international call to pull out?

Total is the 4th largest publicly traded oil and gas company worldwide with operations in more than 130 countries. As of July 2006 its total capital market value was \$306.11bn (Forbes Magazine, 2006). Total began its operations in Burma market in 1992 when it entered a virgin oil market in a consortium with a US-based oil company called Unicol Corp

(Unicol hereafter). With time Total expanded its direct investments to become the largest foreign investor in Burma. Important to remember is that Total also happens to be the largest public company in France, giving it a potential influence from the government policy.

2. Background

Politics and company corporate culture run hand in hand. In the contemporary modern world where a dichotomy of developed and non-developed countries exists, there is a preponderance of the multinational companies and corporations to shift activities from either the western to the eastern or from northern to southern hemispheres. In a complex process known as off-shoring, companies are able to gain economies of scale by cutting operational expenses when they shift operations to underdeveloped or developing countries. Analytical estimates have shown that whenever Western companies shift operations to the third world, soon or later they return to profitability. The explanation for this is complex. In the west companies are heavily taxed by governments to fund hefty social welfare and pension schemes. These factors among others cut down on a company's profits leading to massive employee retrenchment program designed to make its operations lean to bounce back to profitability. Despite of this companies have a corporate social responsibility in any given society that entails job creation as opposed to employee layoffs. Faced with tightening labor markets, diverging consumer confidence, political and market pressures, and widening imbalances, companies are left with less room for maneuver. Corporations chose either to partially or totally disinvest then shift operations to the third world countries e.g. Burma where there is a ready waiting pool of educated inexpensive labor.

3. Total enters Burma

Total entered into a consortium with Unicol Corporation from the US to make a joint investment in the lucrative Burma oil fields. In the beginning both companies were jointly involved in oil drilling activities in Burma however before long Unicol withdrew from the consortium due to intense pressure and lobbying by human rights activists in view of severe human rights violations. Until the withdrawal, both Unicol and Total backed by a Burma military regime, according to a UN report released in 2000, were involved in flagrant violation of the basic humanitarian laws. That civilians living in rural settlements were attacked is now worrying as much as the massacres, in others disorderly flight to safety and often separating families caused by these two companies.

Another reason why Unicol withdrew out of the consortium was the economic sanctions imposed on Burma by US government that made it implausible for investment and economic activity. A US department of labour, in a report published in 2000, offered support to the claims of human rights abuses in Burma, saying "the preponderance of available evidence warrants several conclusions about the use of forced labor on the pipeline project, refugee accounts of forced labor appear to be credible". The European Union (hereafter EU) passed limited economic sanctions that forced most of the multinationals to withdraw out of Burma except for Total. One could ask why Total did not close down its operations like other companies. One explanation why Total has not pulled out is that the French and German governments successfully lobbied in the European Parliament to obtain a minimum preferential trade status for the company. Officially the EU has taken different forms of sanctions: a ban of visas on authorities, freezing of assets, travel ban, arms embargo, suspension of non humanitarian aid and development programs.

4. History of dictatorships

Burma has a long history of dictatorships. This evidence has been corroborated by Freedom House, which has persistently rated democratic status in Burma as 'Not Free' (World Freedom House, 2005). A military junta in the name of a government has confiscated both civil and political rights since 1993. Total has developed a tightly knit relationship with the military government in return for security support and thus earned itself the title of a multinational in business with a dictatorship! A pipeline project known as the "Yadang Project" dating back 1995 saw the Total accommodated with extended army security during construction activities. Although there is nothing wrong with security, how

the officers acted towards civilians has been put to question for violation of human rights. Alas! Even though Total has denied, intelligence from human rights groups has indicated that the army resorted to forced labor and allegedly coerced women and children to lay the pipeline. On the other hand Total has rejected such accusations as groundless and asserted that it used only adult, voluntary, paid workers hired in accordance with employment guidelines.

In Burma, only a thin line separates the private from public sectors. The government—meaning the military—has eroded wherever such a difference exists to sustain itself in power through the money it earns. Military capacity building and enhancement forms a top priority for the Burmese government. In order to buy arms, the regime has reigned on the domestic public coffers to channel colossal amounts towards building military capacity. The story about how Total has been shielded and survived political interference in Burma is often explained by its cordial relationship with the junta military regime. The surging oil gas prices have done more than enough good for the Total because this has not only translated into hyphenated profits but also increased the urge to intensify its oil exploration prospects in Burma. With Total being a direct source of revenue for the military regime in power, it is beyond any doubt that democracy is not about to be restored in Burma. A further interpretation of this could be that oil does not bring any economic prosperity and development the people and economy of Burma but rather suffering. With the current political instability in the Middle East and other parts of the world, the oil markets now predict that the high oil prices will most likely persist in the long run before readjustment. Oil companies are reaping massive profits out of their oil business. Driven by the laws of demand and supply like other key players in the oil industry, Total has remains unraveled with its oil drilling activities in Burma while cashing on the oil boom.

5. Economic contribution

Turning my attention to the contribution made to Burma by Total, one could say that it is relative. To start with the company has over 500 employees who are mostly Burmese. Majority of these people would have no means of livelihood should Total halt its operations in Burma. Burma is a country in the middle of a crisis bogged with social, political and economic problems. A continued absence from the scene of a stable government and political parties has dealt a severe blow to the business climate and micro economic enterprise. There on general lack of security is a major scare for most firms who fear for looting of their assets and property by well connected political detractors. With such low credibility attached to both the political and economic environments, there is simply no incentive to pull more investors to Burma. But Total has survived this apocalypse.

On the bright side of the coin, Total has done a few good things in Burma. Employment is the first factor that comes to mind given that it employs over 500 Burmese. They would otherwise be jobless without employment if Total wound up its oil drilling activities. According to the CIA, Burma has been hit by as high as 60 pc unemployment rates in recent times (CIA, 2006). Therefore the consequences of Total's withdrawal could be felt by a small minority. Nevertheless because the company albeit contributes to the national budget but due to corruption money only ends in the wrong hands for use to acquire firearms and build military capacity.

6. Return to democracy in Burma

How democracy will be returned to Burma has not been an easy question for many political analysts. Led by the European Union and the US, the international community has responded in a more or less cohesive manner pushing for economic sanctions. There have been widespread demonstrations in France and UK known as 'Burma Campaign' mobilizing motorists to boycott Total gas stations albeit with limited success. One last resort now could be for Total to close down on operations to limit any financial support to the military regime that could pave way to give democracy a chance in Burma.

7. Conclusion

In conclusion Total activities in Burma are faced with both credibility and image problems in spite of investment. Meanwhile the companies' shareholders have a role to force Total to pull out of Burma through votes during their company's annual General Meetings.

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