

Corporate Social Responsibility and value chains in Repsol YPF

Paulina Beato
Member of the Board of Administration
Repsol YPF



Content

- CSR and value chain.
- Why insist on the value chain?
- Repsol YPF - Suppliers relations.
- 2008-2012 Strategic Plan.
- Final considerations.

Corporate Social Responsibility



Response of company to mitigate external effects and distributive conflicts that are rejected or not accepted by the society and that ...

- **result from the company's activity.**
 - From the way it purchases inputs.
 - From the price and distribution of products.
- **their origin lies in market failures and in the perception of injustices**
 - Differences between private costs and social costs.
 - What is the fair salary in Vietnam?
 - What is the efficient price of a non-renewable raw material?
- **emerge due to the lack of appropriate regulations.**
 - Regulations do not exist, but there may be: Child labour
 - Regulations exist, but they are avoided with semi-legal formulas.
 - Regulations are not viable.

Relation of the company with its chain



Why insist on the value chain?



Why insist on the value chain?

In their normal activity, companies generate costs and social conflicts along their value chain

- **They purchase exhaustible raw materials.**
 - Is there a transparent market?
 - Is the exhaustion of resources taken into account?
- **They purchase from suppliers.**
 - Do they purchase from their affiliates above the market price?
 - Are local suppliers taken into account?
- **They use skilled labor force.**
 - Do companies take advantage of the excess labor force? Is there discrimination?
- **They transform resources.**
 - Do they generate CO₂? Other waste?



Why insist on the value chain?



A recent study by AT Kearney on 25 Fortune 100 companies shows that only 38% have a sustainability strategy in place in their procurement management

- Isn't there anything to be done in the supply management? or is almost everything to be done?
- If the study were extended to smaller companies and less favored countries, would the resulting percentage be significantly lower?
- Is it only relevant in those sectors where the supply chain is important for the corporate reputation?
- Who has already implemented sophisticated CSR management systems in their supply chain?

How can these questions be replied?

The external effects and distributive conflicts are not properly considered



The worse the legal compliance

Oil extraction, refining and distribution companies



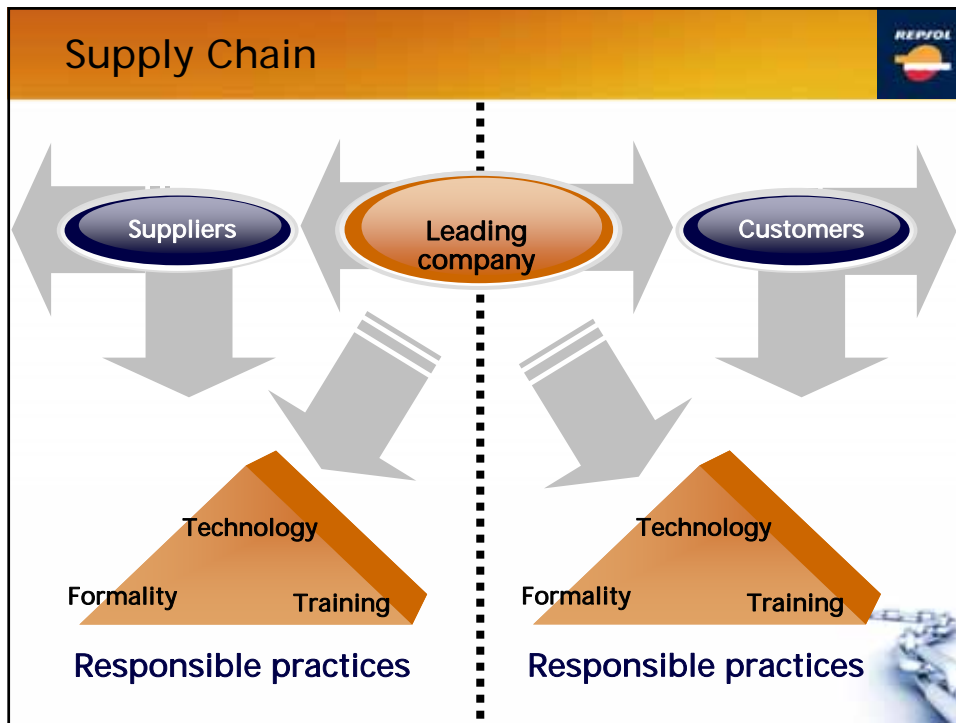
- that carry on their activities in emerging countries,
- that exploit limited natural resources,
- of which the use of oil and gas may cause distributive conflicts,
- whose suppliers may cause negative environmental impacts on account of their own activity,

**will only be socially responsible
if they address the activity of
their entire value chain**



Repsol YPF relations with its suppliers





- ## Four axes
- **Definition of criteria and rules regarding selection and relation with suppliers.**
 - Acceptance of social responsibility commitments.
 - Transparent, stable relation.
 - **Tools to supervise compliance with these principles and rules.**
 - In the procurement department, and within internal audit programs
 - **Facilitate suppliers' adaptation to the new environment.**
 - Schedule to apply new criteria
 - Providing support to suppliers.
 - **Extension of influence to more separated links of the chain**
 - Pay attention to practical feasibility of selection criteria and behavior standards.
-

How does Repsol YPF address the four axes?



Systematic attention since 2006

- **Selection criteria.**
 - Traditional technical and economic criteria.
 - Ethical, environmental and social qualification criteria.
 - Supplier evaluation.
- **Supervision tools.**
 - Transparency.
 - SISPRO system: management tools.
 - Repsol audits to suppliers.
 - Internal audits to procurement.

In process within the Procurement Strategic Plan

- **Facilitate suppliers' adaptation to the new environment in critical markets.**
 - So far only "ad hoc" experiences.

Pending issues under study

- **Extension of influence to other links of the chain**
 - No systematic actions are anticipated until the other axes are consolidated.
 - Critical products.
 - Emerging markets with social risks.

Systematic attention since 2006



- **Repsol YPF relations with suppliers is based on a set of regulations approved at the end of 2006.**
 - Common for all businesses of the company in all countries.
 - Implementation began in Spain and Argentina. During 2008, it was implemented in Ecuador, United States, Peru, Portugal and Venezuela.
- **At the beginning of 2008, a unified supplier information management system called SISPRO came into operation.**
 - This system applies to the entire company and incorporates information generated in the process of qualification, performance evaluation, development and planning of suppliers.
- **Suppliers and contractors have to pass the qualification process based on the critical nature of the goods or services to be provided.**
 - The supplier's technical, corporate, financial and management (quality, safety and environment) information is analyzed.

Systematic attention since 2006



- **In 2008, Repsol YPF conducted 350 qualifications of goods suppliers and 811 qualification of service providers.**
 - 37 goods suppliers and 165 service providers did not qualify.
- **Qualification of suppliers and contractors providing highly critical goods or services requires an audit of their facilities.**
 - During 2008, 647 audits to suppliers and contractors were conducted.
 - In Argentina and Spain, but also in Colombia, Peru, Portugal, Trinidad and Tobago, and Venezuela.
- **The qualification validity period may in no case exceed three years.**
 - A supplier may be temporarily and definitively disqualified due to safety or environmental incidents, or poor performance of the contract awarded.



Systematic attention since 2006



Non economic-financial evaluation criteria

- **Commitment to Human Rights.**
 - Support to initiatives such as the UN Global Compact.
 - Compliance with ILO main conventions on labor rights.
 - Description of mechanisms available to prevent all forms of bribery or corruption.
- **Regulations, systems and actions to eliminate or minimize the negative impact on safety and occupational health.**
 - Management system for the prevention of occupational hazards: the following is required: reference standard, manuals, certifications, number of prevention delegates in the company, risk assessment by job, minutes of safety meetings, accident statistics and accident investigation reports, safety inspection reports of supplier.



Systematic attention since 2006



Non economic-financial evaluation criteria

- **Regulations, systems and actions to eliminate or minimize the negative impact on the environment.**
 - Environmental management system: reference standard and manuals, certifications, identification of emission and landfill, register of periodic inspections, and waste management are required.
- **Labor rights management system with express declaration of freedom of association and collective bargaining.**
 - Prevention of discrimination based on gender, origin, religion and other factors;
 - Disciplinary practices; working day; compensation policy; prevention of harassment and labor abuse, and exclusion of child and forced labor.
- **Social and labor integration of disabled persons.**



Local content of Repsol purchases



- In 2008, we interacted directly with more than 25,000 suppliers.
- Total purchases and contracts amounted to 8,637 million euros, excluding the purchase of crude oil and intermediate products, such as ethanol and naphthas.
- Most supplies were purchased from Spain and Argentina, followed by far by Portugal, Algeria, Peru, Brazil, United States and Libya
- 83% of supplies were purchased to local suppliers.



Local content of Repsol purchases



Country	Total 2008	Local 2008	%
Algeria	335	194	57,98
Argentina	2.676	2.426	90,65
Bolivia	60	54	89,17
Brazil	141	127	90,10
Colombia	22	21	97,15
Cuba	3	0	10,42
Ecuador	85	78	91,30
U.S.	133	98	73,29
Spain	4.277	3.577	83,65
France	3	3	99,95
Iran	7	0,3	4,53
Libya	127	118	92,73
Morocco	32	1	2,63
Mexico	7	7	97,19
Peru	142	136	96,04
Portugal	467	213	45,63
Trinidad & Tobago	71	66	92,85
Venezuela	48	46	95,13
Total	8.637	7.165	82,96

Attention to the value
chain in the
Procurement and Contract
Plan

Bases



Principles that can be included in the CSR scope review in the procurement area

- Incorporation of new filters to accept suppliers.
- Incentives to development, and processes and products with lower environmental impact on suppliers and contractors.
- In-house training to increase awareness regarding environmental preservation and dissemination of these practices within the sector.
- Support for weaker suppliers to incorporate CSR practices.
- Extension of some practices to other links of the value chain.

Milestones to be implemented



- **January - June 2009: determination of best practices:**
 - Working group addressing Corporate Responsibility in Procurement and Supplier Risk Management of the Asociación Española de Profesionales de Compras, Contratación y Aprovisionamientos (AERCE).
 - Participation in the Guidelines for the Responsible Management in the Supply Chain of the Asociación Española del Pacto Mundial (ASEPAM).
 - Exchange of information with other companies of the sector.
- **July 2009: Actions and schedule of the Procurement Strategic Plan for the following years.**
- **2010-2012: Strengthening of the selection and supervision processes, and possible implementation of supplier selective support programs.**

Final considerations



Final Considerations

- **Transnational companies can and should be socially responsible in all the countries where they operate.**
 - Fill market gaps in countries where their affiliates are located.
 - Offset deficiencies in the regulatory framework and lack of social protection.
 - It is not possible to be socially responsible in general and not in all the countries where the company operates.
- **We should not forget that CSR implies *voluntary acceptance* of certain rules of behavior in the daily operation of the company in all the countries.**
 - Society may amend its legislation and demand certain behavior.
 - It may demand responsibility for past irresponsible behavior.



In sum:



CSR is an
implicit contract whereby

Society accepts the *legal
statu quo* if, and only if, the
company does not use it to
the detriment of society in
general, and of its value
chain in particular.

