

PRESS BACKGROUNDER

PROMOTING REVENUE TRANSPARENCY PROJECT 2008 Report on Revenue Transparency of Oil and Gas Companies

Providing practical tools in the fight to reverse the resource curse

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1. What is the PRT Project

The 2008 Report on Revenue Transparency of Oil and Gas Companies¹ is the first of three reports planned by the Promoting Revenue Transparency Project (PRT), an initiative started in 2006 by Transparency International in partnership with Revenue Watch Institute and with the participation of CAFOD, CARE UK, Global Witness, Publish What You Pay and Secours Catholique-Caritas France . The report will be translated into French, Spanish, and Russian. It is available with all background materials at www.transparency.org

¹ This document is for press purposes only. It is illustrative of the full report. The full report and this document represent in their entirety an opinion formed by Transparency International and its project partners based on the research undertaken in accordance with the methodology as set out in Annex 2 of the full report. The report is not meant to assess or comment on the compliance of companies or governments with legal requirements of any kind, nor can it be interpreted to make such an assessment. Transparency International does not accept responsibility for the use of the information herein contained for other purposes or in other contexts.

2. Why choose the Oil and gas industry

Why Oil and Gas? The report focuses on the extractive industries because two thirds of the world's poorest people live in resource rich countries. Oil exports alone were estimated at US\$866 billion worldwide in 2006, more than half of the combined gross domestic product of the 53 lowest-income nations. If revenues from extraction were spent on those who need them most, they could drive sustainable development in resource-rich, poor countries. Too often corruption siphons off funds into the hands of the few, leaving the many mired in poverty. This is the paradox of the resource curse.

Why Companies? Oil and gas companies play a key role in creating transparency of resource revenue flows. Company disclosure helps improve a country's management of resources and provides relevant information to governments and civil society. Ultimately it is a shared responsibility between governments and companies to make public this information so that there can be cross verification. Also, companies can change policies more quickly.

3. The Importance of Revenue Transparency

Revenue transparency is key to ensuring accountability. If citizens and civil society know what their governments receive for the right to extract natural resources, they have the means to hold public officials accountable. Natural resources belong to all citizens of a country.

Company disclosure also contributes to a more stable investment environment, strengthens corporate social responsibility and corporate citizenship, criteria that are becoming increasingly relevant to today's responsible investors and the wider share-holding public. Ethical investing may account for just one percent of all investments but it is rising. (see The Independent newspaper (UK): ethical investment funds up 18 per cent in the final quarter of last year to £5.9bn. (<http://www.independent.co.uk/money/invest-save/big-rise-in-ethical-investments-780727.html>))

There is also a keener focus on transparency in the extractive industry, not least because of the stark increase in oil and mineral prices, and the concomitant rise in corporate profits. World Bank President Robert Zoellick recently committed the World Bank to working with the Extractive Industries Transparency Initiative (EITI) to further enforce its recommendations (see World Bank: <http://www.bicusa.org/en/Article.3667.aspx>). The United States Congress is working on a bill that requires companies based in the US or raising capital there to report on a country-by-country basis what they pay to extract resources, one of the key recommendations of the new TI report.

The TI report is a timely tool to keep the pressure on companies and governments. The results show that although international organisations such as the EITI play an important role in working towards greater transparency, it is important that there are mandatory rather than voluntary reporting requirements in place. EITI does not require supporting companies to disclose revenues on a country-by-country basis except in countries that have agreed to implement EITI. The performance of EITI supporters tended to be higher than non-EITI supporters, but only marginally. (see Graph 11, page 22).

(Transparency International (TI) is an independent non-governmental organisation and that supports EITI. The current chairman of EITI Peter Eigen is also the founder of TI but the two organisations are separate, and the report is the work of TI.)

4. Publicly Available Data

Data for the TI report was collected by consultants from publicly available company sources, such as websites, annual reports and public documents. The rationale: this is the information citizens and civil society have access to; it also shows to what extent a company is willing to be open about its business. Few ordinary people have the skills to sift through court filings or complicated or difficult to access securities and exchange documentation. Companies were given the opportunity to provide information on request so long as it was publicly available.

5. What the Report does not do

The report does not look at the accuracy of the data that companies provide relating to revenue transparency issues, only whether they publish them. It also does not identify corruption or corrupt practices, only whether a company publishes information about its anti-corruption measures. A negative response in the anti-corruption efforts categories does NOT imply that a company is corrupt only that it has failed to publicly describe its anti-corruption procedures.

6. The Collaborative Process

TI believes it takes willingness on all sides to bring about change. This inclusive approach formed the basis for how the research was conducted. TI established a Working Group and a Reference Group that included experts, investors, company participants and NGOs representatives who were consulted throughout the research and writing of the report.

In 2006 the Working Group finalised a list of 40 companies in 20 countries. The companies were asked to participate in the information gathering and review process. Nexen and Qatar Petroleum asked to be included in the final list, increasing the total number to 42 companies

(and 21 countries). The questionnaire used to assess companies was improved during Working Group discussions and input from the companies led to the weighting system to account for difficult operating environments and the introduction of a not-applicable category (where it was inaccurate to answer yes or no). The result is a fairer assessment of company performance and reflects the value of company participation.

TI hoped to maintain a high level of interaction throughout the process. However, only 10 companies reviewed their data. The refusal by some companies to do this had consequences. Companies said it is not always possible to provide information on their websites but that there is nevertheless an important amount of information available on request. Some companies complained the data collection process was flawed but did not help fill in the gaps. As the intention of the report is transparency in revenue reporting, TI believes that the steps taken to collect the data needed to be relatively simple. A company that makes it difficult to answer specific questions is not reporting that information in a transparent way.

(The TI Report builds on *Beyond the Rhetoric*, a study published in 2005 by Save the Children UK that sought to measure the revenue transparency of 25 oil and gas companies operating in seven countries.)

7. How to read the report

The TI Report groups companies into three categories of high, middle and low performers based on the responses to a detailed questionnaire that covers a broad spectrum of revenue transparency issues. This will provide a benchmark for monitoring performance and give civil society the tools to advocate for specific changes in individual corporate and government policy and performance.

Two-thirds of the companies studied are grouped in the middle or low performers categories; these include some of the biggest names in the industry from around the world (see table). Although this is disappointing, TI considers this an opportunity to exert peer pressure from companies that are high performers on their less transparent industry rivals to encourage a move towards a more level playing field.

The results show that transparency is possible. All companies should follow the example of the high performers.

Preparing the report

The goal of the analysis was to study all areas where reporting transparency can have an effect on the lives of people living in resource rich countries. This goes beyond the sums a company pays the government for the right to extract natural resources. Behind that number is a bigger picture of how a company operates in a particular country, where in its operations there is room for corruption, and how and whether it has systems in place to deal with this.

The report is not meant to assess or comment on the compliance of companies or governments with legal requirements of any kind, nor can it be interpreted to make such assessment.

How companies were grouped

Each company was awarded points using a binary system (1 for yes, 0 for no) based on the answers to a questionnaire. This covered three main areas:

- Payments to host governments on a country-by-country basis (e.g. royalties, fees)
- Operations on a country-by-country basis (e.g. publicly available information on the scope of operations etc.)
- Anti-corruption programmes, i.e. company disclosure of anti-corruption policies and practices and their scope. It also accounted for whether a company discloses information about the implementation of the policies.

Annex 4 lists the questions and Annex 5 details the response for each company in each country where it operates.

For example, Annex 4 lists Question 3 (page 47) as: Has the company made a public declaration committing itself to the disclosure of material payments in cash or in kind to parties related to contracts? In Annex 5, the results for companies show that only two out of the 42 companies earn points for answering yes.

Context indicators weighted responses for questions in the performance section based on whether a company was deemed to be operating in a supportive, mixed or restrictive environment. For example, a company received extra points if it fully discloses information in a country that included confidentiality clauses in its contracts.

How to Read the Results

The companies were awarded points that were then averaged. The companies were then grouped into: high, middle and low performers. International Oil Companies (IOCs) and National Oil Companies (NOCs) operating outside their home countries are listed in one column and NOCs operated at home are listed in a second column. The detailed methodology is explained in Annex 2.

8. Tools to bring about change: how to use the data

The data can be used in many ways. Companies can use it to benchmark their performance and monitor improvements, host governments can adopt the questionnaire and encourage their NOCs to focus on areas than need improvement, and home governments cans assess the impact of their own legislation. Civil society also has new tools to push for specific changes. For example:

- **Country Analysis—Algeria:** TI is making available to its TI Chapters and coalition partners country data sheets on request. For example, the data supplied for Algeria shows 12 oil companies operate in the country: nine are IOCs, two are NOCs operating outside their home territory and the third is an Algerian NOC. A graph tabulating results shows the Algerian NOC performs poorly overall but is better than many IOCs when it comes to reporting payments to the government. It also shows that there are high performers operating in Algeria that could be used as examples to the lower achievers (StatoilHydro and Talisman Energy).
- **Industry Analysis:** The data gives industry watchers the ability to identify best practice companies and shows that this is not detrimental to financial performance. It allows comparison between the revenue reporting performance of companies that are listed on stock exchanges and those that are not (see graph 4, page 19) underscoring the recommendation that mandatory international regulations are key to ensuring greater transparency in the extractive industries.
- **Key Target Areas:** the data allows advocacy groups to pinpoint areas of improvement. For example, Graph 6 (Page19) shows that NOCs should be pressured to improve their policies on revenue transparency. The detailed responses to the questionnaire identify how specific NOCs rate on this point. For example, question N5 asks: Has the company made a public declaration committing itself to the transparency of revenue payments? Only two of the 21 NOCs get a point: Petróleos Mexicanos (Pemex) in Mexico and StatoilHydro in Norway.
- **Company Analysis:** A close look at individual responses to the questionnaire can identify specific areas where companies are falling short of the highest standards.

For example: for question (Number 1, page 47): “Has the company made a public declaration committing itself to the disclosure of revenue payments in all countries of operation?” Only three companies earn points.

The data also shows most companies have extremely poor results in the payments category. One company failed to earn even one point. (For a full list of all questions and responses see Annexes 4 and 5.)

9. Recommendations

TI invests time and energy in research and analysis to produce concrete proposals that can improve the lives of the poor and reduce corruption. This report, and its findings can be used by investors, the press, and advocacy groups to call for greater revenue transparency in one of the world's richest industries.

TI recommends:

- Companies report proactively revenues paid to governments on a country-by-country basis.
- Home governments and regulatory agencies make disclosure mandatory for companies operating at home and abroad.
- Governments from oil and gas producing countries introduce legislation that mandates revenue transparency by all companies operating in their territories.
- Regulatory agencies and companies publish information in a uniform and easy-to-understand way.

TI is working on two further reports focused on the revenue transparency policies and actions of governments in countries rich in natural resources, and governments in countries where oil and gas companies are based. These will be available in the 2008-2010 timeframe.

10. Funding

The PRT project is funded by Revenue Watch Institute, the Ministry of Foreign Affairs, Finland, CAFOD and Secours Catholique-Caritas France. The PRT project receives no direct money from the oil and gas industry although the TI-Secretariat and some TI-Chapters do receive funding from oil and gas companies (some of whom are assessed in the report).