FREQUENTLY ASKED QUESTIONS

PROMOTING REVENUE TRANSPARENCY PROJECT

2008 Report on Revenue Transparency of Oil and Gas Companies

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THE PROJECT

1) What is the Promoting Revenue Transparency (PRT) Project?

The Promoting Revenue Transparency Project dates from 2006 and is run by Transparency International[1] in partnership with the Revenue Watch Institute[2] and with the participation of Publish What You Pay coalition members.[3] The Project focuses on the extractive industries, evaluating and comparing the degree of revenue transparency currently demonstrated by selected companies, by host countries where production is taking place, and by home countries where the companies are based.

The first component of the Project is the Transparency International *2008 Report on Revenue Transparency of Oil and Gas Companies* that evaluates 42 leading oil and gas companies in 21 countries on their revenue transparency policies, management systems and performance.

The Project is part of a growing international multi-stakeholder movement of governments, companies, investors and civil society that seeks to promote improvements in transparency and accountability in natural resource revenue management. Participants of this movement recognize that revenue transparency improves broader governance, strengthens the investment climate in which businesses operate, and provides a necessary condition for achieving sustainable development. It is a key step to eliminating corruption.

2) What are the goals of the PRT project?

The PRT project aims to raise awareness among all stakeholders of the various steps required for revenue transparency to be achieved, sustained and mainstreamed. To this end it has three specific objectives:

1. To measure revenue transparency performance and diagnose areas for improvement.
2. To develop broad standards for revenue transparency.
3. To support the use of the revenue transparency standards and measures of performance by companies, rating agencies, investors, government regulators and civil society.

3) What are the products of the Promoting Revenue Transparency Project?

The *2008 Report on Revenue Transparency of Oil and Gas Companies* is the first product of the PRT Project. Next steps in the period 2008-2010 include the production of an Oil and Gas Host Governments Report covering approximately 10 countries, an Oil and Gas Home Governments Report, and a Mining Report.

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[1] Transparency International is the global civil society organization leading the fight against corruption. Through its national chapters worldwide and an international secretariat in Berlin, Germany, TI raises awareness of the damaging effects of corruption and works with partners in government, business and civil society to develop and implement effective measures to tackle it. www.transparency.org

[2] The Revenue Watch Institute (RWI) works to ensure that the revenues generated by the extractive industries contribute to sustainable development and poverty reduction, through the promotion of public finance transparency in resource-dependent countries. www.revenuewatch.org

[3] PWYP is a global civil society coalition campaigning for revenue and contract transparency in the oil, gas and mining industries. The coalition believes that transparency is an essential condition for alleviating poverty, promoting just development, improving corporate accountability, and reducing corruption in resource-rich developing countries. http://www.publishwhatyoupay.org/english/

4) How does the PRT Project complement the Extractive Industries Transparency Initiative[4]?

There are differences and similarities between the PRT project and EITI that makes them distinct but complementary. While the Project acts as a reminder to both the companies and governments of their responsibilities under EITI, it encourages them to go beyond payments disclosure to support other enabling conditions for increased transparency and accountability, such as anti-corruption policies and practices, revenue management and expenditure, contract transparency, accounting practices, and regulatory issues.

The PRT Project also addresses companies and countries that are not yet involved in EITI, helping to raise awareness and increase the incentives for others to join.

5) How is the PRT project funded?

The Promoting Revenue Transparency Project is financed by the Revenue Watch Institute and the Ministry of Foreign Affairs, Finland, with support from Secours Catholique-Caritas France, CAFOD, Care International UK, and Save the Children UK.

6) Has any funding been received from companies or the private sector?

No, the project has not received funding from any companies or the private sector. TI-Secretariat and TI chapters do receive some funding from companies, including some of the oil and gas companies assessed in the report, but the production of the Companies Report by the PRT Project has been funded separately to ensure impartiality.

[4] EITI is a coalition of governments, companies, civil society groups, investors and international organization which seek to improve governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining. www.eitransparency.org

THE ISSUE

7) What is the 'resource curse'?

The oil, gas and mining industries generate huge revenues for companies and governments. However, much of this wealth does little to reduce high levels of poverty or improve the lives of citizens. Rather than fostering economic growth and development, high revenues from the extractive industries have often fuelled corruption, economic stagnation, inequality and conflict. This paradox has been labelled the 'resource curse'.

8) Why focus on revenue transparency?

Lack of transparency breeds corruption, theft and mismanagement. Access to financial information helps citizens, civil society and investors hold governments accountable. Transparency can therefore turn the resource curse into a blessing.

For the purpose of this report, revenue transparency refers to three areas of company action that can contribute to improved accountability for extractive revenues:

1. Public disclosure of payments to governments of benefit streams, e.g. taxes, profit oil, on a country-by-country basis.
2. Public disclosure of operations of other financial information pertaining to operations, also on a country-by-country basis, that assists in judging the scale of activities and accuracy of payment reporting, e.g. production, costs.
3. Public reporting of anti-corruption programmes including the existence of anti-corruption provisions, codes of conduct and their applicability, whistle-blowing procedures, and reporting on censuring malpractice.

9) How can revenue transparency contribute to sustainable development?

There is a growing recognition that transparent and accountable management of natural resource revenues helps to ensure that natural resource wealth translates into improving wellbeing and fostering sustainable development. For many countries worldwide revenues from natural resources, and particularly from the extractive industries, provide a considerable source of income, either through their direct contribution to the public budget or because they are the main export commodity. In countries such as these, the amount of revenue the government receives and how it is spent is decisive for the wellbeing of the country. Ensuring access to information about how much money governments receive from extractive industry revenues empowers citizens to hold their governments accountable, monitor how the money is spent and lobby for responsible public spending. If properly managed, revenues from natural resources could provide a basis for poverty reduction, economic growth and sustainable development.

10) How can revenue transparency reduce corruption and improve governance?

Budget transparency, including revenue and expenditure management, remains one of the core dimensions of good governance and anti-corruption work. High extractive resource revenues can mask poor governance in the short-term, allowing governments to avoid long-term investment and efficient management of revenues. Moreover, where decision-making power over large amounts of money is concentrated in the hands of a few public officials, the risk that negotiations with multinational companies are susceptible to bribes and other favours is high. There is also the risk of 'rent-seeking' as interested parties try to persuade the government to spend money in their interests, rather than for the public good.

Transparency is a necessary feature in all stages of public budgets: from preparation, discussion, and approval to allocation, cash management, contracting and expenditure. Transparency encourages government accountability and enables civil society to monitor money flows. Greater accountability should both support good practice and, more specifically, limit bad practices and the mismanagement of extractive industries revenues that all too often fuel corrupt elites and deepen social conflict.

11) Why should companies be more transparent and publicly disclose their revenues?

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 by providing relevant information to government entities, parliaments and civil society. It contributes to a more stable investment environment of good governance and rule of law that benefits both the country and the company.

Governments and industry regulators recognise the role transparency plays in reducing corruption and promoting good governance. There is a groundswell towards more ethical investing. Revenue transparency contributes to strengthened corporate social responsibility and corporate citizenship. Publishing what they pay to governments for the extraction of natural resources is a key step towards earning a reputation as a socially responsible corporate. Investors are increasingly considering this aspect of corporate management, and more home and host governments are beginning to require it. Disclosure improves a company's image, making it less vulnerable to unsubstantiated attacks on its reputation. In general, a company that reports as fully as possible on its activities, including all aspects of its revenues, provides an assurance of reliability.

Transparent reporting also assists investors and analysts in obtaining a closer and clearer picture of value, risk exposure, cost management and revenue flows. Essentially, revenue transparency is in a company's best interest. Transparency can serve as an effective risk management tool, and comprehensive corporate reporting diminishes the opportunities for corrupt officials to extort funds. The goal is to make companies aware that proactive revenue transparency is a positive step both for them and for the countries where they operate.

12) Who has a role to play in improving revenue transparency?

Four principal stakeholders can improve the transparency of financial information in the extractive industries sector:

- **Companies** can publish how much they are paying and to whom;
- **Host governments** can publish how much they receive from companies and when they receive payments;
- **Home governments** and other authorities, such as stock exchange regulators, can regulate and enforce the disclosure of such information;
- **Civil society groups** can monitor and demand accountability from governments for oil and gas revenues produced in their respective countries. The ability of civil society to perform this role rests on the actions of the other three stakeholders.

13) Why are mandatory disclosure mechanisms important?

Mandatory revenue transparency would ensure that companies operate under the highest standard of transparency. Mandatory disclosure rules would also ensure equal access to information on revenue payments, anti-corruption programmes and operations. It is clear from the results of the report that voluntary guidelines do not go far enough. Some companies are willing to get away with as little reporting as possible. For example, compare the results for National Oil Companies that are listed on a stock exchange and those that are not (Graph 4, page 19).

GOALS AND METHODS

14) What is the goal of the *2008 Report on Revenue Transparency of Oil and Gas Companies*?

The goal of the *2008 Report on Revenue Transparency of Oil and Gas Companies* is to identify both best practices and those companies that can improve their revenue reporting transparency policies. The report is a tool that can be used by TI and other advocacy groups to identify and pressure for changes to corporate policy, international regulations and home and host government regulations.

15) How will the initiative encourage companies to improve?

By identifying specific areas where companies can change policies to improve their performance, the companies themselves can take the initiative to proactively report more information about their operations, to measure themselves against the industry best practice and set up their own improvement benchmarks. Ideally, the next iteration of the Report would show wide industry improvement and more companies among the top performers.

The report also provides civil society with the tools to engage in constructive engagement with the companies.

16) How were the companies and countries covered in the Report selected?

The Report covers 42 companies and 21 countries. The companies chosen for analysis are not a representative sample of oil and gas companies, but a selection made according to specific criteria. The key criteria included a combination of industry and country materiality (big companies and/or big local players), a diversity of company types, ensuring that the NOCs of all countries of operation were included, and some continuity with companies included for assessment in the *2005 Beyond the Rhetoric* report produced by Save the Children UK[5].

The selection of countries of operation aimed at ensuring a sound geographical coverage and used as its main criteria: resource dependency[6], the need to include some of the world's largest oil and gas producers, and whether countries are home to a relevant NOC according to the criteria used to select companies. Membership or non-membership of EITI was not by itself a country selection criterion, neither was the relevance (materiality) of the country for particular companies.

In short, the choice of companies and countries of operation was interdependent and the final list is a careful selection agreed in consultation with the project's Working Group (see Annex 1).

17) How was the data gathered for the TI Report?

The data-gathering process involved desk-based research into information that is made publicly available by the company. Using company sources ensured fairness and objectivity, as well as allowing us to focus on the companies' efforts and draw comparisons about

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5 See "Beyond the Rhetoric: Measuring Revenue Transparency - Company Performance in the Oil and Gas Industries". This assessed 25 companies and their revenue transparency performance in Angola, Azerbaijan, Indonesia, Nigeria, Timor Leste and Venezuela. "Beyond the Rhetoric: Measuring Revenue Transparency – Home Government Requirements for Disclosure in the Oil and Gas Industries" assessed the regulatory performance of Australia, Canada, France, Italy, the Netherlands, Norway, the UK, USA, South Africa and Russia. Both are available electronically at: http://www.transparency.org/policy_research/surveys_indices/promoting_revenue_transparency/promoting_prt_project

6 As a method to define resource dependency we used the IMF's list of hydrocarbon rich countries published in its Guide on Revenue Transparency of June 2005 (Table 1, page 62) and considered the countries with higher percentages of resource revenue as a percentage of GDP or as a percentage of exports.

performance. In addition to the material available on company websites, each company had the opportunity to provide other printed information available in the public domain. The information that was examined in the course of the research included annual reports, policy statements, codes of conduct, country-specific reports, reports on corporate responsibility, sustainability reports, etc.

Some companies expressed concern that the data collection process was flawed and are likely to disavow the findings of the report. TI's point is that this report is measuring transparency in revenue payments, operations and anti-corruption reporting. If the data is not easily available from public sources (websites, annual reports etc.) it is not transparent.

18) What standards are the companies being measured against?

The framework devised consists of a questionnaire with approximately 50 indicators addressing different aspects of revenue transparency. The indicators used relate to existing standards drawn from international sources, mainly the following:

- EITI principles and validation grid
- IMF Guidelines for Revenue Transparency
- UN Anti-Corruption Convention
- TI's Business Principles for Countering Bribery

19) What is the focus of the framework indicator questions?

The questions focus on whether or not the information relevant to revenue transparency is disclosed and available in the public domain. They do not seek to test the quality or accuracy of the information disclosed, nor to evaluate the efficacy of any reported practices, the impact of performance, or whether companies fulfil legal requirements. Points are awarded based on yes (1) and no (0) answers. For a few indicators, a sliding scale is used for scoring, allowing partial disclosure of information to be acknowledged (for example, disclosure regarding some but not all countries of operation). Some questions included the option of a 'not applicable' response.

20) Was the same framework of indicators used to assess both national and international oil companies (NOCs and IOCs)?

Yes. However, as many National Oil Companies (NOCs) often perform a mix of commercial and non-commercial or regulatory functions in their home jurisdiction, an additional set of indicators dealing with regulatory and procurement issues was applied to them. These questions only apply to NOCs in their home jurisdiction. NOCs operating beyond their home territories are treated like independent oil companies (IOCs). A direct comparison of the scores for NOCs and IOCs is therefore not feasible as they reflect different types of operations. NOC scores reflect performance reporting at home, while the IOC scores reflect the reporting performance of IOCs abroad and, in many cases, in more than one host country.

21) How does the methodology account for the environments in which companies operate to avoid the so-called "accidents of geography"?

There is a weighting formula used to take into account whether a company is operating in a restrictive, enabling or supportive environment. This was established by developing "context" indicators. The performance scores are then weighted accordingly. For example, if a company reports all revenues in a country that does not require it to do so or has restrictions against reporting payments, the company will be given a higher score on its performance indicators for its reporting. An example is StatoilHydro in Angola. (See Annex 3 for a full description of the methodology and weighting criteria)

22) How does the TI Report relate to the 2005 Save the Children Companies Report?

This Report builds on the efforts undertaken by Save the Children UK which in 2005 produced the first oil and gas companies report under the rubric *"Beyond the Rhetoric*". It covered 25 companies and their operations in 6 countries.

The TI Report adds more companies and countries of operation to extend the coverage of this analysis. The methodology used in the 2005 report has been revised and refined, as described below. A full comparison of the two reports is available in Annex 8 of the report.

23) Has the methodology of the TI Report changed since 2005 Save the Children Companies Report?

The methodology and framework have been revised by:

- Increasing the level of company participation in all stages of the process.
- Introducing context weighting related to the environment in which a company operates.
- Adding a new set of special questions applicable to NOCs only.
- Expanding the questions on anti-corruption policies and practices.
- Introducing special questions for national oil companies.
- Adding a “not applicable” option to some questions.
- Refining existing questions, and adapting them to fit the EITI language.

24) How does TI ensure quality control of the data produced in the Report?

In addition to the internal checks performed by the consultants that gathered the data, the data was reviewed by independent industry experts and by some of TI’s index experts and statisticians. Most importantly, the research process included the opportunity for companies to review the data gathered on them for accuracy. Of the 42 companies included in the report, 10 companies used this opportunity to review the data totally or partially.

25) What role did companies and other stakeholders play during the production of this report?

Multi-stakeholder engagement and consultation were crucial elements in the process of producing the reports and critical to the advocacy aspects of the Project. The Project incorporated multi-stakeholder input through the participants in its Working Group and its broader Reference Group, two groups that comprised industry experts, company representatives, civil society organisations and members of the EITI secretariat. Multi-stakeholder involvement improved the comprehensiveness of the questionnaire and the reliability of the results. All companies were given the opportunity to review their data.

26) What is the significance of the three different groupings?

The companies were awarded points that were then averaged, and weighted according to the context weightings (see question 21 above). The companies were then grouped using three categories: high, middle and low performers. These groupings are determined by dividing the results according to tercils, a statistical approach which creates three statistically equal groups.

To be classified as a high performer in terms of revenue transparency, a company ideally does the following:

- Makes a public commitment to revenue transparency and anti-corruption regulations and provides information about the corresponding management systems for putting these into practice.
- Publishes revenue payments for each country of operation.
- Publishes information on production, costs and reserves for each country of operation.
- Publishes information on contractual arrangements for each country or notes the existence of confidentiality clauses that preclude publication.
- Publishes relevant aspects of the implementation of their anti-corruption policies (such as whether employee training is in place, or the number and nature of sanctions).

More information on the characteristics of each group of performers is available in Table 1, page 15. International Oil Companies (IOCs) and National Oil Companies (NOCs) are listed in separate columns.

THE RESULTS AND THEIR USES

27) Can a fair comparison be made between the results of the 2005 Save the Children Companies Report and this TI Report?

Due to the fact that the indicators in the questionnaire were revised and therefore differ from those used in the 2005 Save the Children Companies Report, it is not possible to make an exact comparison between the results. Annex 8 explains this fully and prints a graph that compares companies that feature in both reports, mentioning that caveat. The results show improvement in performance for all companies during the period from 2005 to 2007.

28) How can companies, governments, civil society and others use the Report?

- Companies can use this information to establish benchmarks and improvement plans, to self-assess their performance over time and improve reporting templates.
- Host Governments can look at the questionnaire used and encourage their NOCs to adopt disclosure policies and practices along the lines assessed, or to focus on particular areas that need improvement.
- Home Governments can asses the impact of their own initiatives to introduce legislation requiring mandatory disclosure on their companies' performance in all countries of operation.
- Civil Society can use the findings to identify areas of improvement both in terms of company performance and government regulation, and to monitor and follow up change over time and advocate for improvements.
- National organisations can also replicate this study applying the same questionnaire to all companies operating in the country, analysing the results and providing more detail on in-country company performance.

For even more information please visit the Promoting Revenue Transparency website at www.transparency.org/revenue_transparency or e-mail prt@transparency.org.