TRANSPARENCY INTERNATIONAL
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PROMOTING REVENUE TRANSPARENCY

SUMMARY

2008 Report on Revenue Transparency of Oil and Gas Companies*

Oil and gas generate great wealth in some of the world's poorest countries. Too often poor governance means this wealth undermines rather than contributes to economic growth and social development. This paradox is called the resource curse. Transparent resource governance is vital to transforming this curse into a blessing.

In this report, Transparency International (TI) evaluates 42 leading oil and gas companies on their current policies, management systems and performance in areas relevant to revenue transparency in their upstream operations (production only). Revenue transparency includes three areas of corporate action where disclosure can contribute to improved accountability in the management of extractive revenues: payments to host governments, company operations and corporate anti-corruption programmes. This report, which is based on information that is made publicly available by companies, evaluates current levels of company revenue transparency, points to best practices, and suggests areas for improvement.

Better governance of oil and gas resources, which is key to improved development outcomes, is only possible with adequate information about the resources being extracted and the revenues generated by them. It is necessary that this information be provided both by companies and governments to allow cross verification. Ultimately, greater transparency regarding revenues strengthens the accountability chain.

A variety of stakeholders, most notably the oil and gas companies themselves, were engaged during the report's research design and data review process. Analysis is based on publicly available information provided by the companies. Several companies used the opportunity to review their own data and provide feedback, but regrettably more than 30 companies did not take up this opportunity.

* *This summary, as well as the full report, represent in its 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.*

COMPANY GROUPINGS

The research carried out for this report identifies three tiers of revenue transparency disclosure among international and national oil and gas companies: high, middle and low. International Oil Companies (IOCs) and National Oil Companies (NOCs) were evaluated separately. However, NOCs when operating outside their home territories were treated as IOCs. The results for both groups are shown below.

Table 1: Overall company results

Revenue transparency by grouping			
Group	**IOCs and NOCs that operate outside their home country** (in alphabetical order (1))	**NOCs in their home territories** (in alphabetical order (1))	**Characteristics**
HIGH	BG Group, BHP Billiton, Nexen*, Petro-Canada*, Shell, StatoilHydro*, Talisman Energy*, Petrobras*	China National Offshore Oil Corporation (CNOOC), Oil and Natural Gas Corporation Ltd. (ONGC), Petróleos Méxicanos (Pemex)*, Petrobras*, PetroChina, Sinopec, StatoilHydro*	**High IOC performers:** • Some disclose payments systematically on a country-by-country basis, others disclose in a few selected countries. • Go beyond existing mandatory regulations applicable to them. • Have different strengths in different areas of transparency: payments, operations and anti-corruption programmes. • Further improvement for this group means reaching full country-by-country disclosure, namely in all countries of operation; and for some, increased disclosure of anti-corruption programmes. **High NOC performers:** • Disclose revenue at home or are listed. • Provide information about their regulatory structure and procurement practices. • Further improvement for this group means increased disclosure of anti-corruption programmes and of policies in all areas of transparency.
MIDDLE	BP, Chevron, Conoco-Phillips, Eni, Hess, Marathon Oil, Repsol YPF, Total*, Woodside	Gazprom, KazMunaiGaz (KMG), National Iranian Oil Company, Nigerian National Petroleum Company (NNPC), Petronas*, Qatar Petroleum*, Rosneft, Sonatrach	**Middle IOC performers:** • Disclose revenues mainly by geographical area and only in a few selected countries of operation. • Further improvement for this group means upgrading country-by-country disclosure aiming at covering all countries of operation and increasing disclosure of anti-corruption programmes. **Middle NOC performers:** • Disclose relatively little about payments and anti-corruption programmes. • Further improvement for this group means increased reporting on policy and management systems, and improved reporting on all areas of revenue transparency, particularly for non-listed companies.
LOW	China National Offshore Oil Corporation (CNOOC), China National Petroleum Corporation (CNPC), Devon Energy, Exxon-Mobil, INPEX, Kuwait Petroleum Corporation, Lukoil, Oil and Natural Gas Corporation Ltd. (ONGC), Petronas*	China National Petroleum Corporation (CNPC), GEPetrol, Kuwait Petroleum Corporation, Pertamina*, Petróleos de Venezuela (PDVSA), Saudi Aramco, Société Nationale des Pétroles du Congo (SNPC), Sonangol	**Low IOC performers:** • Disclose only by geographical segment and provide almost no additional information relevant to revenue transparency. • Further improvement for this group requires increased reporting on all areas of revenue transparency. **Low NOC performers:** • Disclosure is relatively absent in the areas of payments and anti-corruption programmes, whether in terms of reporting on policy, management systems or performance. • Further improvement for this group requires increased reporting on all areas of revenue transparency at all levels of implementation.

* Indicates a company that used the opportunity to review its data.

(1)Companies are listed alphabetically in each group. Sequencing in each group is unrelated to relative performance within that section.

Source: Transparency International *2008 Report on Revenue Transparency of Oil and Gas Companies*. Results are weighted by context. Each grouping is determined according to tercils.

KEY FINDINGS

REVENUE TRANSPARENCY is not yet a common practice in the industry. The weakest area is reporting on payments to host governments. IOCs produce better results for reporting on their operations and their anti-corruption programmes than on payments to host governments. NOCs are weakest at reporting on payments and anti-corruption programmes.

WIDE VARIATION exists in company practice. Leading companies amongst both IOCs and NOCs demonstrate that revenue transparency is possible and that proactive company efforts can make a difference. Different companies behave differently in the same country. Even in restrictive environments, some companies are high performers, proving that better disclosure is possible.

GOOD PRACTICE in revenue transparency starts at home, where regulation has a strong influence on current company revenue transparency practices. If there are more demanding regulations at home, companies are more likely to report consistently in all their countries of operation. NOC behaviour at home and abroad is different, further suggesting that host regulations are not enough.

REGULATORY APPROACHES produce systematic impact. There are two main types of regulations that currently have some limited impact but have the potential for levelling the playing field:

- **Regulations with a multi-country impact (such as stock exchange listing regulations or accounting standards), and**
- **Host government reforms along the lines of the Extractive Industries Transparency Initiative (EITI).**

DISCLOSURE of information on revenue transparency is hindered by diverse formats of reporting that are difficult to obtain, interpret and compare across companies and countries.

METHODOLOGY

TI's *2008 Report on Revenue Transparency of Oil and Gas Companies* reviews the disclosure practices of 19 International Oil Companies (IOCs) and 23 National Oil Companies (NOCs) and their operations in 21 countries[1]. Engagement with the companies from the outset was a major feature during all stages of the research process. Research was conducted in 2007 and the results were finalised in February 2008. Only company-provided, publicly available information was considered. TI refined and expanded the original methodology with the help of industry experts, analysts, investors and the companies themselves. The companies chosen for analysis are not a representative sample of oil and gas companies, but a selection made according to specific criteria.

The TI report analyses reporting practices in three key areas for IOCs and a fourth for NOCs:

- Payments to host governments on a country-by-country basis (e.g. royalties, taxes, fees).
- Operations on a country-by-country basis (e.g. publicly available information on scale of operations, contracts, production volumes).
- Anti-corruption programmes, i.e. company disclosure of anti-corruption policies and practices and the scope of these. It also accounted for whether a company discloses information about the implementation of such policies. It does not cover how effective a company is in handling anti-corruption cases.
- For NOCs only, an evaluation of regulatory and procurement issues was included.

Three areas of implementation were considered:

- **Policy:** looks at whether the company has policies, commitments or rules for revenue transparency.
- **Management systems:** looks at whether the company has allocated resources and created the systems needed to achieve revenue transparency.
- **Performance:** looks at whether the company is disclosing information on payments, operations and its anti-corruption efforts.

The TI report does not look at the accuracy of the data that companies provide, only whether such information is publicly available. It does not judge whether legal requirements have been fulfilled, nor does it identify corruption or corrupt practices.

[1] *The TI report builds on Beyond the Rhetoric, a study published in 2005 by Save the Children UK that measured the revenue transparency of 25 oil and gas companies operating in 7 countries.*

RESULTS

INTERNATIONAL OIL COMPANIES: PROACTIVE DISCLOSURE DRIVES GOOD PERFORMANCE

At present, proactive disclosure is the main determinant of good performance by companies in terms of revenue transparency. The results of this research show that disclosure efforts made by a few leading companies – for example, StatoilHydro and Talisman Energy – can lead the way for others to follow best practices.

IOC reporting is strong on anti-corruption programmes but weak on payments to host governments. According to the results, most companies are not reporting what they pay host governments for the right to extract natural resources. Graph 1 shows that the average score for payments was just 19 percent of the total possible points. This limited reporting of revenue payments is disappointing, as transparency regarding such earnings is key to implementing stronger accountability mechanisms to monitor the use of natural resource wealth.

There are positive results, however, related to the publication of anti-corruption efforts. IOCs and NOCs operating outside their home territories achieved an average score of 58 percent (see Graph 1). Companies are undoubtedly spurred by an increase in regulations, primarily from home governments and stock exchanges. Companies such as Shell and BG Group demonstrate best practice in this regard.

NATIONAL OIL COMPANIES OPERATING AT HOME: LISTING REQUIREMENTS DRIVE DISCLOSURE

NOC results are low for both disclosure of payments to governments and anti-corruption programmes. However, there is a distinction when comparing listed and non-listed NOCs. This indicates that listing requirements can encourage disclosure (see Graph 2). StatoilHydro, Petróleos Méxicanos (Pemex) and Petrobras, the leading group of NOCs, also show that proactive disclosure, home government regulation that supports disclosure and stock exchange listing are driving factors for good performance.

HOW COMPANIES IMPLEMENT TRANSPARENCY

On average, IOCs have better results on disclosure of policy and management systems than disclosure of performance. In cases where disclosure of IOC performance was weak several factors may be relevant. The host government may restrict disclosure, home government regulations may limit disclosure, or the company may simply choose not to disclose, for materiality or other commercial reasons. While many companies do make efforts to disclose information, actual disclosure of performance still remains sporadic, in contrast to a relatively higher level of commitment expressed through the companies' own policies on revenue transparency.

On average, NOCs tend to show better results for disclosure of performance than of policy and management systems. This may be due to the fact that for NOCs the indicators are applied to only one country of operation: their home territory. Also, this strong level of performance reporting may be driven by their in-country interaction with IOCs, causing NOCs to perform to standards higher than their own stated policies.

IOC AND NOC TRENDS

- International and national oil companies both show weakest results in terms of disclosure of payments to host governments. This indicates that country-by-country disclosure of revenue payments is not yet standard practice.
- Both IOCs and NOCs provide relatively detailed information, on their operations, possibly because of the commercial demand from investors and analyst. For NOCs, this could be the result of information required for macroeconomic analysis.
- IOCs demonstrated far better results than NOCs in terms of disclosure of anti-corruption efforts.
- NOCs listed on stock exchanges tend to perform similarly to average IOCs (see Graph 2).
- IOCs in the low performing group tend to follow NOC patterns.

THE 'EITI EFFECT' REMAINS LIMITED BUT HOLDS PROMISE

The Extractive Industries Transparency Initiative (EITI) is the most significant multi-stakeholder initiative to promote revenue payment transparency. EITI was launched in 2002 as a voluntary initiative under which a government and extractive companies operating in that country agree to parallel disclosure of company payments related to extractive activities and government receipts respectively, with independent reconciliation of the data streams. To date 17 of the 42 companies covered in this report have joined EITI. However, EITI does not require supporting companies to disclose on a country-by-country basis except in countries that have agreed to implement EITI. Although the average disclosure results for companies that support EITI tend to be higher than for those companies that are not yet EITI supporters, only a few appear to be applying EITI transparency principles systematically across all countries of operation.

COMPANY ACTIONS MATTER MORE THAN LOCAL CONDITIONS: IN-COUNTRY ANALYSIS

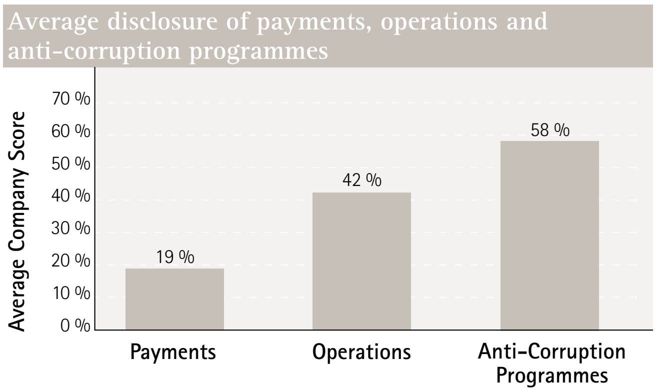
The report found that a company generally performs similarly in all countries in which it operates. This consistency, regardless of operating environment, reflects the significant impact of both a company's choice to disclose and the regulatory environment in which it operates, as determined by where it is registered (home government regulations) or where it raises capital (stock exchange regulations).

Some companies even report systematically when operating in countries that place restrictions on disclosure or in environments that lack explicit measures promoting revenue transparency, for example StatoilHydro in Angola and Talisman Energy in Algeria. This challenges the view that restrictions in host countries are impossible to overcome.

In some countries there is a great disparity between high and low performers, for example in Algeria, Azerbaijan, China, Indonesia, Kazakhstan, Malaysia and Venezuela. Better performers demonstrate that fuller disclosure in these environments is possible and should be attainable by others.

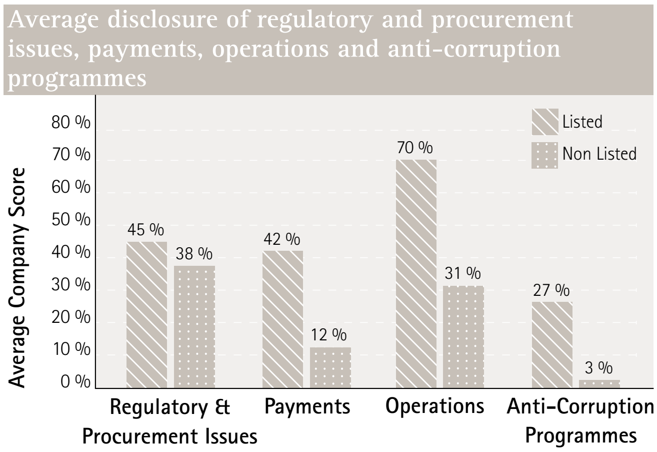
Table 2 shows the above and below average performers per country based on the research results.

Graph 1: IOCs and NOCs operating outside their home territories



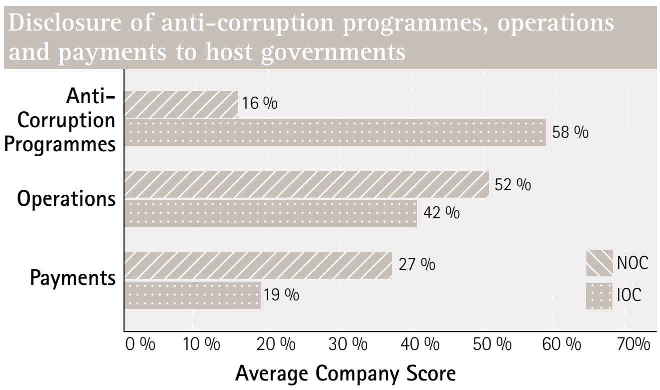
Source: Transparency International *2008 Report on Revenue Transparency of Oil and Gas Companies* . Results are weighted by context.

Graph 2: Listed and Non-listed NOCs operating at home



Source: Transparency International *2008 Report on Revenue Transparency of Oil and Gas Companies*. Results are weighted by context.

Graph 3: Comparing IOC and NOC results



Source: Transparency International *2008 Report on Revenue Transparency of Oil and Gas Companies*. Results are weighted by context.

Table 2: IOCs and NOCs operating outside their territories

Performance by Country of Operation

	Companies (1) (2)				
Host Country	very high above country average scores	above country average scores	below country average scores	very below country average scores	Number of companies covered
ALGERIA	StatoilHydro, Talisman Energy	BHP Billiton, ConocoPhillips, Eni	BP, Hess, Repsol YPF, Woodside, Total	China National Petroleum Corporation (CNPC)	11
ANGOLA	StatoilHydro	Eni, Total	BP, Chevron, Petrobras	ExxonMobil	7
AZERBAIJAN	StatoilHydro	BP, Chevron, Hess	Devon Energy, ExxonMobil	INPEX	7
BRAZIL	N.A.	Shell	Repsol YPF	N.A.	2
CHINA	StatoilHydro	ConocoPhillips, Eni, Shell	Chevron, Devon Energy	INPEX, Kuwait Petroleum Corporation	8
CONGO BRAZZAVILLE	N.A.	Eni	Chevron, Total	N.A.	3
EQUATORIAL GUINEA	Hess	ExxonMobil, Devon Energy, Marathon Oil	N.A.	N.A.	4
INDONESIA	Chevron, Talisman Energy	BP, ConocoPhillips, China National Offshore Oil Corporation (CNOOC), Eni, ExxonMobil, Hess, Total	INPEX	China National Petroleum Corporation (CNPC), Kuwait Petroleum Corporation, Petronas	13
KAZAKHSTAN	BG Group	BP, Chevron, Eni, ExxonMobil	Lukoil	China National Petroleum Corporation (CNPC)	7
MALAYSIA	Talisman Energy	Hess, Shell	ExxonMobil	Kuwait Petroleum Corporation	5
NIGERIA	Shell	Total	Chevron, ConocoPhillips, Eni	ExxonMobil	6
NORWAY	Talisman Energy	BP, Eni, Shell	Chevron, ConocoPhillips, ExxonMobil, Hess, Marathon Oil, Total	N.A.	10
QATAR	N.A.	Total	ExxonMobil	N.A.	2
RUSSIA	BP	ConocoPhillips, Shell, Total	Devon Energy, ExxonMobil, Lukoil	Oil and Natural Gas Corporation Ltd. (ONGC)	8
USA	Chevron, Nexen, Talisman Energy	BP, ConocoPhillips, Hess, Marathon Oil, Shell	BHP Billiton, Devon Energy, Eni, ExxonMobil, Petrobras, Petro-Canada	Repsol YPF, Total, Woodside	17
VENEZUELA	StatoilHydro	Chevron, ConocoPhillips, Eni, Petrobras, Repsol YPF, Shell	BP, ExxonMobil, Total	China National Petroleum Corporation (CNPC)	11

* Only includes countries with more than one company operating in them covered in this report. It therefore does not include Saudi Arabia and India nor the countries where the sole operator included was the NOC operating in its home country. Groups in this table are determined in relation to the country average score and their distance around the standard deviation.

(1) Table refers to IOCs and NOCs operating outside their home territories only.
(2) Companies are listed alphabetically in each group. Sequencing in each group is therefore unrelated to relative performance within that section. The information in this Table is based on the results of the research and the methodology used in this report and it cannot be interpreted to asses if host or home legal requirements are being fulfilled.

Source: Transparency International *2008 Report on Revenue Transparency of Oil and Gas Companies.*

RECOMMENDATIONS

Based on these key findings, Transparency International makes the following recommendations to improve revenue transparency, which it believes could ultimately contribute to better governance of natural resource wealth and more equitable economic development:

FIRST, oil and gas companies should proactively report in all areas relevant to revenue transparency on a country-by-country basis.

Proactive disclosure of payments, operations and anti-corruption programmes on a country-by-country basis by companies is the fastest way to enhance revenue transparency. This disclosure would provide civil society and other stakeholders with the information they need to hold governments to account for how revenues from extractive industries are spent.

Oil and gas companies that have already started to disclose information in some countries should extend their reporting to all countries where they operate. Oil and gas companies should also do their best to discourage governments from including confidentiality clauses in contracts that obstruct revenue transparency.

The types of information, benchmarks and examples of good practice in systematic reporting identified in this report, as well as the categories of information used by the Extractive Industries Transparency Initiative, should be used as guidelines for such reporting.

SECOND, home governments and appropriate regulatory agencies should urgently consider introducing mandatory revenue transparency reporting for the operations of companies at home and abroad.

In cases where governments such as Canada and Norway make disclosure of revenues paid to host countries mandatory, revenue transparency reaches a high level and confidentiality restrictions in host countries are overcome. If all governments were to call for revenue transparency by their companies on a country-by-country basis, a level playing field would be created for companies, and all host governments could be held accountable. Based on this goal, the following actions are recommended:

- Home governments should require revenue transparency from their companies.
- Home governments should ensure their NOCs operate under the highest standards of transparency in their operations at home and abroad.
- Where revenue transparency does not become mandatory by law, stock exchange listing regulations and international accounting standards should be adapted to encourage revenue transparency disclosure.

THIRD, governments from oil and gas producing countries should urgently introduce regulations that require all companies operating in their territories to make public all information relevant to revenue transparency.

More oil and gas producing countries are encouraged to fully implement the Extractive Industries Transparency Initiative (EITI) and measures that will set the highest standards for revenue transparency in their territories. All countries already taking steps in this direction should ensure regulations are effectively implemented. This includes disclosure by their own National Oil Company (NOC) and other State Owned Enterprises related to the industry.

Along these lines, host countries are encouraged to dispense with those aspects of confidentiality clauses that depart from legally protected information and prevent full revenue transparency in their territories.

Host governments who have not yet done so should urgently consider publishing all revenues received from the extractive industries.

FOURTH, regulatory agencies and companies should improve the accessibility, comprehensiveness and comparability of reporting on all areas of revenue transparency by adopting a uniform global reporting standard.

Efforts to introduce uniform standards (e.g. international accounting standards, stock exchange listing requirements) should receive full support. Regulatory initiatives need to address the characteristics and the quality of reporting when establishing reporting templates. A tabular approach can be a way to combine brevity and clarity, thereby increasing transparency and simultaneously making the information disclosed more user-friendly for all interested stakeholders.

Regulators could also consider what information, in addition to payments to host governments, is helpful in order to assess the appropriateness of the data provided. This content should build on EITI categories, as well as those used by companies demonstrating good practice, and should include the elements in the questionnaire used in the data collection for this report. Examples of information to include are: countries of operation, names of subsidiaries operating in each country, production, costs and reserves per country, and anti-corruption policies and practices.

The Promoting Revenue Transparency (PRT) project is run by Transparency International in partnership with the Revenue Watch Institute, and with the participation and support of Publish What You Pay (PWYP) and its members, including CAFOD, CARE International UK, and Secours Catholique-Caritas France.

The full report in English, French, Spanish and Russian is available, along with all the supporting materials, at www.transparency.org/revenue_transparency. For more information and a hard copy of the full report please contact:

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