



**Save the Children**  
UK



# Beyond the Rhetoric

**Measuring revenue transparency:**  
company performance in the oil and gas industries

2005  
make it great  
for **children**

child  
MAKE POVERTY HISTORY



**Save the Children**  
UK

## **Beyond the Rhetoric**

### **Measuring revenue transparency:**

company performance in the oil and gas industries

Oil and gas companies have generated enormous wealth. But rather than improving the lives of ordinary people, these revenues have often fuelled wars and corruption, weakened economic development and worsened poverty. Children are the most vulnerable to the devastating impact of these conflicts, and the resulting chronic under-investment in health and education.

There has been growing recognition that the way to improve the responsible use of these revenues is to increase the accountability of governments and companies. This has resulted in initiatives such as the Publish What You Pay campaign and the Extractive Industries Transparency Initiative (EITI).

But beyond the rhetoric, how much progress is really being made? Who is being transparent and who is not?

**This report focuses on company performance. It compares the revenue transparency of oil and gas companies, identifying leaders and laggards across six countries. It also presents a measurement framework that points the way towards a 'gold standard' for company disclosure.**

It should be read in conjunction with another report, *Home government requirements for disclosure in the oil and gas industries*, which applies a similar framework to home countries in which these companies are registered or raising capital.

**Save the Children**  
1 St John's Lane  
London EC1M 4AR  
UK

**Tel +44 (0)20 7012 6400**

**You can download this  
publication at  
[www.savethechildren.org.uk](http://www.savethechildren.org.uk)**

# Beyond the Rhetoric

**Measuring revenue transparency:**  
company performance in the oil and gas industries



**Save the Children fights for children in the UK and around the world who suffer from poverty, disease, injustice and violence. We work with them to find lifelong answers to the problems they face.**

**Save the Children UK is a member of the International Save the Children Alliance, the world's leading independent children's rights organisation, with members in 27 countries and operational programmes in more than 100.**

Published by  
Save the Children  
1 St John's Lane  
London EC1M 4AR  
UK

Tel +44 (0)20 7012 6400

First published 2005

© The Save the Children Fund 2005

Registered Company No. 178159

This publication is copyright, but may be reproduced by any method without fee or prior permission for teaching purposes, but not for resale. For copying in any other circumstances, prior written permission must be obtained from the publisher, and a fee may be payable.

Typeset by Grasshopper Design Company

Printed by Greenaways Ltd, London

# Contents

List of figures and tables	v
Acknowledgements	vi
Abbreviations and acronyms	vii
<b>Executive summary</b>	<b>I</b>
The 'Resource Curse' and its impact on children	I
The importance of transparency	I
Growing international focus on transparency	I
What role can companies play?	I
Setting standards, comparing performance: the Measuring Transparency framework	2
This report – Measuring company action in support of transparency	2
Results	2
Conclusions	5
Summary of recommendations	6
<b>I Background, objectives and scope of study</b>	<b>7</b>
1.1 The 'resource curse' and its impact on children	7
1.2 The importance of transparency	7
1.3 The role of companies in promoting greater transparency	8
1.4 Objectives of this report	8
1.5 Audience	8
1.6 Scope and timing	9
1.7 Coverage – Rationale for choice of company and country	9
<b>2 Methodology and approach</b>	<b>11</b>
2.1 Survey of transparency initiatives and performance measures	11
2.2 Reference group	11
2.3 Principles guiding the design of the methodology	11
2.4 Framework of indicators	12
2.5 Scoring	13
2.6 Weighting	13
2.7 Research process	14

<b>3 Results</b>	<b>16</b>
3.1 Overall company rankings	16
3.2 Revenue payments transparency – Results	18
3.3 Supportive disclosure – Results	25
3.4 Anti-corruption and whistle-blowing analysis	30
<b>4 Key issues and opportunities</b>	<b>33</b>
4.1 Revenue payments and supportive disclosure	33
4.2 Anti-corruption and whistle-blowing	36
4.3 Use of the ‘measuring transparency’ framework	36
<b>5 Conclusions and recommendations</b>	<b>37</b>
5.1 Home government regulation is a key driver of disclosure performance	37
5.2 Reforms in accounting and securities standards offer a golden opportunity	37
5.3 The best voluntary approaches are global and systematic	38
5.4 Companies can do more in individual countries	38
5.5 Concerns over company reporting can be overcome	38
5.6 More attention needed on policies for anti-corruption and whistle-blowing	39
5.7 The measuring transparency framework offers a gold standard for companies	39
Appendix 1 Company responses to study	40
Appendix 2 Framework of indicators	41
Appendix 3 Transparency initiatives and performance measures reviewed	44
Appendix 4 Definition document	45
Appendix 5 Reporting template	49
Appendix 6 Reporting checklist	50
Endnotes	52

## List of figures and tables

Table 1: List of companies surveyed	10
Table 2: Weighting approach	13
Table 3: Overall company rankings (weighted)	17
Table 4: Revenue payments transparency indicators	19
Table 5: Supportive disclosure indicators	25
Table 6: Anti-corruption and whistle-blowing indicators	30
Graph 1: Revenue transparency in the oil and gas sector	3
Graph 2: Revenue payments (unweighted)	20
Graph 3: Revenue payments by host country (unweighted)	22
Graph 4: Supportive disclosure (unweighted)	26
Graph 5: Supportive disclosure by country (unweighted)	28
Graph 6: Anti-corruption and whistle-blowing (unweighted)	31

# Acknowledgements

This report was written by Emerging Market Economics (eme)\* in conjunction with Save the Children UK. It builds on an earlier phase of methodology development and testing conducted by Mohammed Ali\*\* and Richard Calland\*\*\* between April and July 2004 on behalf of Save the Children UK.

At Save the Children UK, Vanessa Herringshaw, Head of Economic Policy, directed the project after creating the original concept for the 'Measuring Transparency' framework. Liza Lort-Phillips, Private Sector Adviser, was responsible for overall project management and Samantha Bramley for project co-ordination.

Save the Children would like to thank the Open Society Institute (OSI) and Insight Investment for their financial support and also CARE UK, CAFOD, Secours Catholique and World Vision who provided additional funding.

We also wish to thank the members of the reference group who generously contributed their time and expertise, and all those consulted during the project. Particular thanks to Richard Murphy for his input throughout the project.

\*Emerging Market Economics (eme), 3 Millharbour, London  
E14 9XP Tel +44 (0)20 7538 2111 [www.emergingmarkets.co.uk](http://www.emergingmarkets.co.uk)

\*\*Mohammed Azam Ali, [Maa69@columbia.edu](mailto:Maa69@columbia.edu)

\*\*\*Executive Director, Open Democracy Advice Centre,  
6 Spin Street, Church Square, Cape Town, South Africa  
Tel +27 21 467 5670

## Disclaimer

It should be noted that the rating of company performance in this report reflects an assessment of their performance on aspects of revenue payments transparency and disclosure only. This does not in any way reflect or endorse their behaviour or reputation in other respects, such as their record on human rights or environmental impact.

# Abbreviations and acronyms

BOE	Barrel of Oil Equivalent
CSR	corporate social responsibility
DFID	Department for International Development (UK)
EI	extractive industries
EITI	Extractive Industries Transparency Initiative
EU	European Union
FASB	Financial Accounting Standards Board (USA)
G8	Group of Eight countries – Canada, France, Italy, Germany, Japan, Russian Federation, United Kingdom, United States
GAAP	Generally Accepted Accounting Principles
GRI	Global Reporting Index
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFI	international financial institution
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
PSC	production sharing contract
PWYP	Publish What You Pay (a coalition pressure group)
TOD	Transparency Obligations Directive

## **A note on technical terms:**

**Securities** Trade-able interests that represent financial value, including corporate shares, mutual funds and bonds (issued by companies and governments)

**Home governments** Governments of countries that are ‘home’ to companies either registered or raising capital within their jurisdictions

**Host governments** Governments of countries that are ‘hosting’ company operations on their soil, ie, where exploration and extraction are taking place

# Executive summary

## The 'Resource Curse' and its impact on children

Extractive industries (oil, gas and mining) have generated enormous revenues for a number of countries. Revenue payments, when effectively spent, have the potential to bring about dramatic improvements in citizens' lives. When spent on public investments in health and education services, they can help lift poor children out of poverty. But paradoxically, huge revenues from extractive industries have frequently fuelled corruption, exacerbated conflict and weakened economic development, resulting in damaging impacts on children's lives. Save the Children UK's 2003 report on the extractive industries, children and governance illustrates this link well.<sup>1</sup>

## The importance of transparency

Effective use of revenues is strongly linked to accountability, which in turn requires transparency of information. Where a country is receiving payments for the rights to oil, gas and minerals, its citizens need to know about the types and volumes of these payments. This information can help them to exert pressure on their governments for better spending on key basic services such as health and education, for example, through Poverty Reduction Strategy processes. To make sure that this translates into better outcomes for children, key actors, such as governments, donors and civil society organisations around the world are monitoring whether the spending allocated is reaching children. Transparency is an essential precondition to this work.

## Growing international focus on transparency

There is a growing international focus on transparency. The 'Publish What You Pay' coalition was founded in 2002 by Save the Children UK, George Soros' Open Society Institute, Global Witness, CAFOD, Oxfam and Transparency International to promote transparency in the extractive industries. It now has over 200 members in more than 33 countries. G8 governments committed to an action plan, 'Fighting Corruption and Improving Transparency', in 2002. The European Union (EU) encourages increased voluntary disclosure in its new Financial Services Action Plan (2004). The World Bank and the International Monetary Fund are also supporting ways to improve transparency in the extractives industries.

In 2002, Tony Blair launched the Extractive Industries Transparency Initiative (EITI) at the Johannesburg summit on sustainable development. It involves governments, companies, investors and civil society organisations. The approach relies on the governments of 'host' countries (where the extraction is taking place) to take the lead and to publish all revenues they receive from companies. Where these host governments are willing to act, the EITI can bring important progress. However, it will take a long time to cover all host countries in this way. More importantly, it will not work for countries where the government does not engage, even though it is likely that it is in these countries that reform is most needed.

## What role can companies play?

By emphasising the role of host governments, the EITI has shifted attention away from the responsibilities of companies. Companies could take more responsibility

by publishing an account of what they pay to governments in each country of operation so that local citizens could access information on what their governments have received. Companies can do this voluntarily, either alone or in co-operation with other companies. To ensure a more systematic approach, such disclosure could be required by 'home' country governments (governments of countries that are 'home' to companies either registered or raising capital). These regulations would work in companies' interests in two ways: firstly, by levelling the playing field, and secondly, by providing better investment protection through a context of improved governance.

## **Setting standards, comparing performance: the Measuring Transparency framework**

There has been much talk about transparency. But beyond the rhetoric, who can really bring about change? What are they doing? And how do the different performances compare? The 'Measuring Transparency' project aims to develop standards for three core groups of actors – home governments, companies and host governments – and to assess their progress over time. This report focuses on companies while a sister report assesses home government practice. The EITI is currently developing an approach to assessing progress in host countries. This component will also be explored in future development of the Measuring Transparency framework.

## **This report – Measuring company action in support of transparency**

This report aims to put the focus back on the direct action that companies can take to support improved transparency of revenue flows in the extractive industries. It is the first known attempt to define a standard for the industry and to assess practice against this standard. The report seeks to capture progress made by companies through voluntary initiatives, but

goes further to illustrate what steps should be taken if genuine transparency is to be achieved. It focuses on the upstream oil and gas sectors, but recognises that future phases should also address the mining sector.

The framework for companies covers policy, management systems and performance as appropriate across three categories: revenue payments transparency; supportive disclosure; anti-corruption and whistleblowing (see Appendix 2 for framework of indicators). It was developed through consultation with industry and government experts, investors, rating agencies and civil society organisations. A reference group reviewed the development of the framework and commented on drafts of the report.

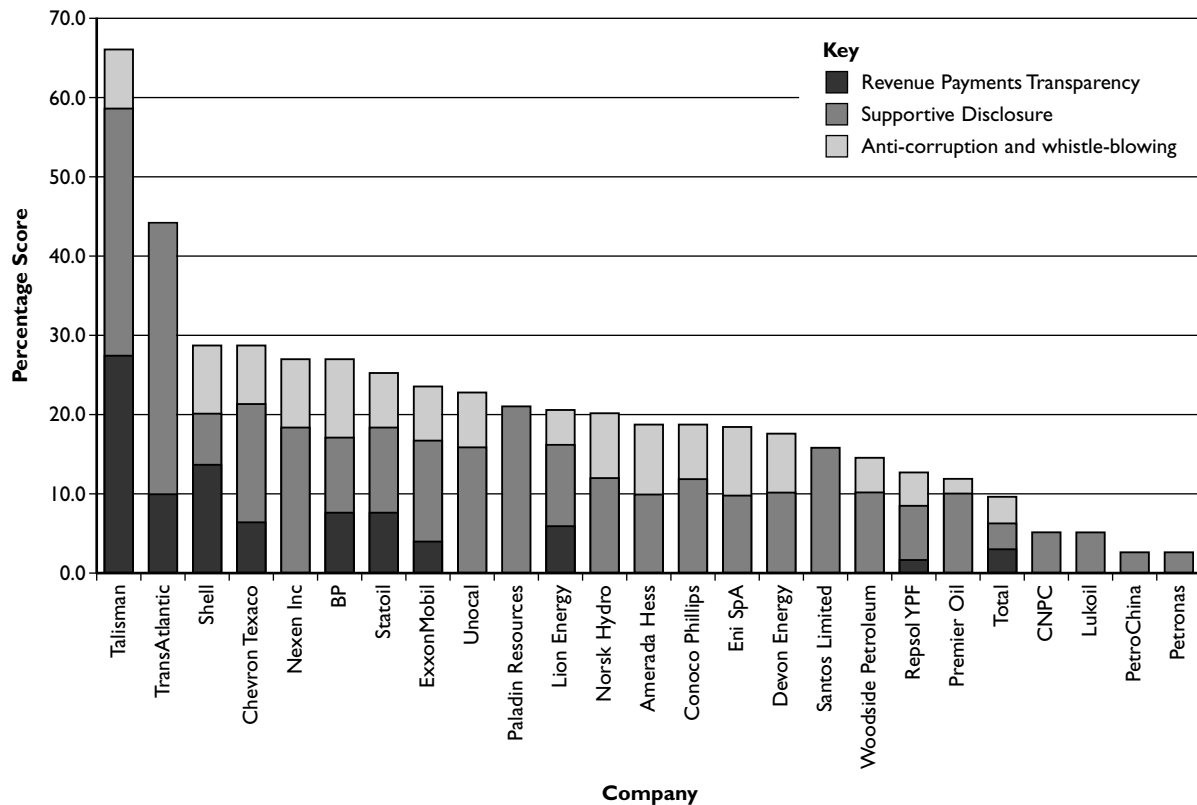
An independent consultancy analysed and ranked 25 companies with operations in six countries (Angola, Azerbaijan, Timor Leste, Indonesia, Nigeria and Venezuela). Data sources were deliberately limited to those in the public domain, as a key aspect of transparency and to ensure that the information consulted would be available to ordinary citizens. Companies were offered the opportunity to verify the findings. Ten companies responded in detail, three declined to participate and the rest did not provide a definitive response (see Appendix 1).

## **Results**

### **Overall, transparency in the oil and gas sector is poor**

Overall, scores are low, with 23 of the 25 companies scoring below 30 per cent. The issue of revenue payment disclosure to host governments is at the very heart of transparency in the extractives industries. Performance in this category is particularly low overall, with 15 of the 25 companies surveyed scoring zero. Almost all companies scored less than 40 per cent for supportive disclosure.

One key reason for this poor performance is that industries disclose information by geographic segment rather than on a country-specific basis. This is of little



**Graph 1: Revenue transparency in the oil and gas sector**

use to citizens trying to determine the amount of revenues received by their governments. Of the information that is provided, most is not audited.

These overall results indicate there is substantial room for improvement and should serve as a useful baseline on which future performance can be measured.

### **EITI participants show uneven performance**

Of the seven companies that appear as participants on the EITI website<sup>2</sup> and which have producing operations in at least one of the six countries studied, surprisingly only four (Shell, Chevron Texaco, BP and Statoil) have publicly disclosed any payments to governments. All four had operations in other countries for which no revenue payments were disclosed. The other three (ExxonMobil, Repsol and Total) have not provided any information on revenue payments to any of these host governments. Total sits

two places above the bottom of the table with a score of 9.5 per cent – a surprising result for this European EITI participant.

It is true that the current approach of EITI means member companies are not bound to publish revenue payments. However, a company's participation does mean that its management considers the issue of transparency important enough to become a 'participant'. Results indicate that this does not appear to have always translated into either clear policies or consistent performance.

### **Variation of performance in-country shows that companies can go further**

A common concern expressed by companies is that they cannot unilaterally publish revenue payments information because of the limited space for such transparency offered by the host government. Yet the results show great variation in disclosure performance

by different companies within the same country. Some companies have taken the initiative to work co-operatively with the host government to disclose payments. Shell has the highest country-specific score for its progressive disclosure practice in Nigeria (82 per cent). Chevron Texaco arranged a waiver of a confidentiality clause in Angola to publish a signature and social bonus. BP has the third-highest score for an individual country for its strong performance in Azerbaijan (55 per cent). These are admirable examples of good practice. However, this good practice is not shared by other companies operating in the same countries. If some companies have already negotiated this transparency 'space', it should be possible for others to do the same.

### **Systematic disclosure across countries is possible**

While the EITI approach is based on the argument that disclosure is difficult for companies without host government agreement, there is one company that discloses this kind of information and commits to do so for all the countries in which it operates. Overall, Talisman Energy clearly leads the field in overall transparency (69 per cent). Second in the ranking is TransAtlantic Petroleum (44 per cent). These two Canadian companies are significantly ahead of the other companies surveyed. Talisman's performance is driven by two factors: firstly, it has committed to systematically publishing details of royalties, taxes and bonuses paid in all countries of operation. This information is gathered during the company's annual reporting process and condensed into a two-page table in the *Corporate Responsibility Report*. Secondly, Canadian securities law requires it to disclose royalty payments and a range of supportive disclosure payments on a country-by-country basis (a factor that also drives TransAtlantic's performance).

### **Companies that take a voluntary ad hoc lead make a difference, but the approach has its limitations**

Results reflect two different voluntary approaches (one demonstrated by Talisman, the other by BP, Shell and Chevron Texaco). While companies must be credited for their collaborative, negotiated initiatives with host

governments, this means that progress is slow and proceeds on an ad hoc, piecemeal basis; the good performance demonstrated in one country (which tends to be where their most 'material' investments are located) is not replicated in other countries of operation. For example, Shell's laudable performance in Nigeria (82 per cent) is weakened by its lack of action in Venezuela (19 per cent). By contrast, Talisman's approach of publishing key revenue payments wherever it operates is more systematic.

### **Poor performers show the need for stronger measures**

PetroChina and Petronas (3 per cent) sit at the bottom of the table. Petronas is Malaysia's national petroleum corporation and is wholly owned by the Government. PetroChina is the largest listed subsidiary of the Chinese National Petroleum Corporation,<sup>3</sup> which finished one place above its subsidiary in a tie with Lukoil (5 per cent). The poor performance of Chinese companies should be a concern for all those with an interest in transparency and a desire for a level playing field. Their performance clearly demonstrates the need for global standards for revenue payments transparency.

### **Home government regulation of company reporting is vital**

The results have highlighted the vital role that home government regulations can play in promoting transparency. The strong performance of the Canadian companies is explained in part by Canadian accounting and securities reporting requirements. Our parallel report on home government support for transparency compares the regulatory environments of ten countries (Australia, Canada, France, Italy, the Netherlands, Norway, Russia, South Africa, the UK and the USA). Canada is the only one with any mandatory requirements for disclosure of revenue payments on a country-by-country basis. This includes reporting of royalty payments to host governments. This regulation has translated into better disclosure performance by Canadian companies.

It is therefore clear that the mandatory approach is particularly effective in setting good standards and

producing a systematic impact in all the host countries. Canada also demonstrates that it is possible for a home government to lead from the front.

### **Practical concerns over such disclosure can be overcome**

Some companies expressed concern that it would be too costly to publish on a national basis and that the volume of information would be overwhelming. But information is typically gathered on a country level and then consolidated by group headquarters. It should not be difficult to make this information available on a website. To make it of more practical use to citizens of host countries, tables presenting concise summaries on a national basis are useful, as Talisman has demonstrated. A suggested reporting template is provided for useful reference (see Appendix 5).

### **Great opportunity for progress – Reform is happening now**

Growing recognition of the need for greater transparency coincides with the biggest reform in accounting standards for over 25 years. This is a unique opportunity to integrate revenue payments disclosure on a country-by-country basis into mainstream financial regulations. These reformed standards will cover most of the world's companies for many years to come.

Specifically, the International Accounting Standards Board (IASB) is developing a more comprehensive standard for the minerals sector (IFRS 6). A convergence project is underway to more closely align the standards contained within the International Financial Reporting Standard (IFRS) and the Generally Accepted Accounting Principles (GAAP). There are also moves towards harmonisation of securities regulations at European level (under the auspices of the Financial Services Plan). Such reforms offer significant points of influence as national governments prepare their own legislation in accordance with the requirements of these directives.

Such reform and harmonisation offers companies an opportunity to contribute towards the creation of a

strong global standard for transparency that will help citizens and investors to secure the information they need and to ensure the 'level playing field' that companies want.

### **Anti-corruption and whistle-blowing – Better but still room for improvement**

The overall results are good and 13 of 25 companies scored above 70 per cent. However, seven companies scored zero. BP leads the way with a full score, demonstrating that it is possible to reach a gold standard. Other companies, particularly those scoring zero, should aspire to the same.

## **Conclusions**

There are currently two different voluntary approaches to disclosure being adopted by companies, each with their merits. The first approach is where companies negotiate with host governments to disclose all, or part, of their payments – either unilaterally or collaboratively with other companies. With the second approach there is systematic disclosure of payments for every country of operation. While the first approach has advanced the cause of transparency under the banner of the EITI, it remains a slow and ad hoc approach. The second approach proves that it is possible to disclose across all countries of operation, even in challenging contexts where few others are doing so.

- **Home government regulation is a key driver of disclosure performance:** Canada's requirement that its companies disclose royalty payments and aspects of supportive disclosure on a country-by-country basis is a key reason for strong performance by Canadian companies. This demonstrates that it is possible for home governments to play a greater role in supporting transparency. Moreover, such an approach, if harmonised with other governments, would deliver a more level playing field for companies and relieve them of the burden (and risk) of the country-by-country negotiated approach.
- **The scale of current reforms in accounting and securities standards offers a golden opportunity**

for home governments to turn transparency requirements into mainstream regulations. Moreover, companies and investors can support the setting of a standard by G8 countries that would mark great progress towards a more level playing field.

## Summary of recommendations

Companies should publish what they pay to governments wherever they operate on a country-by-country basis. They should bring this about by:

- **lobbying home governments to mainstream disclosure requirements** into accounting and listing standards. Ultimately, regulation affords investment protection and provides a level playing field
- **calling on G8 governments to announce a commitment** to developing global standards at the G8 summit this year.

Companies should also:

- **adopt a more systematic approach** to publishing payments made to governments in every country in which they operate, as demonstrated by Talisman. To assist this, companies could:
  - *publish a clear company policy on transparency*, including proof of senior management responsibility for the issue. This will help investors and civil society better judge performance and enable access to key individuals who can represent the company on transparency concerns
  - *develop a simple reporting template* (along the lines of that suggested in this report) in order to present key revenue payments in a straightforward way.

- **work collaboratively with other companies, civil society and host governments** to build disclosure agreements into their contracts. This means making better use of the ‘space’ to show leadership in individual countries
- **actively engage with the EITI** to support progress where host governments are willing. Companies must do more and promote the EITI within their industry
- **improve anti-corruption and whistle-blowing systems** where performance is poor
- **use the standard provided in this report** to measure and publicise progress on transparency against competitors on an annual basis. Civil society and investors have already expressed an interest in doing so.

Home governments must also take greater responsibility by:

- **developing a global standard for disclosure in the extractive industries.** The UK Government should take advantage of its role as host of the G8 summit in July this year to formally incorporate this call into the G8 action plan for ‘Fighting Corruption and Improving Transparency’
- **working with accounting and securities regulators** to ensure that country-level disclosure requirements are incorporated into corporate reporting standards. The standards presented in this report offer a practical starting point and the current ‘space’ for regulatory reform offers a unique opportunity for governments to act
- **actively engaging with the EITI**, encouraging its companies to do so, and promoting it through diplomatic dialogue with host countries at every opportunity.

# I Background, objectives and scope of study

## I.1 The 'resource curse' and its impact on children

Extractive industries (oil, gas and mining) have generated enormous revenues for a number of countries. Revenue payments, when effectively spent, have the potential to bring about dramatic improvements in citizens' lives. Spent on public investments in health and education services, they can help lift poor children out of poverty. But paradoxically, huge revenues from extractive industries have frequently fuelled corruption, exacerbated conflict and weakened economic development, resulting in damaging impacts on children's lives. Save the Children UK's 2003 report on the extractive industries, children and governance illustrates this link well.<sup>4</sup>

## I.2 The importance of transparency

Effective use of revenues is strongly linked to accountability, which in turn requires transparency of information. Where a country is receiving payments for the rights to oil, gas and minerals, its citizens need to know about the types and volumes of these payments. This information can help them to exert pressure on their governments for better spending on key basic services such as health and education, for example through Poverty Reduction Strategy processes. To make sure that this translates into better outcomes for children, governments, donors and civil society organisations around the world are monitoring whether the spending allocated is reaching children. Transparency is an essential precondition to this work.

To drive this necessary progress towards transparency, a group of non-governmental organisations formed the 'Publish What You Pay' coalition in 2002.<sup>5</sup> It now has over 200 members in 33 countries.

Improved transparency is ultimately to the benefit of all stakeholders.

- **Civil society** needs transparency in order to hold governments to account for the use of extractive revenues.
- **Host governments** (where extraction is taking place) can improve relations with their citizens and lower borrowing costs in the international financial markets for emerging market economies<sup>6</sup> if they operate transparently.
- **Governments of countries that use oil and gas** recognise that poor management of natural resource revenues can foster instability that may affect the security of their supplies.
- **Companies** are increasingly realising the importance of transparency in ensuring a level playing field and in maintaining credibility with investors, consumers and local communities.
- **Financial regulators, rating agencies and investors** recognise that corporate and government transparency is a major factor in financial risk.
- **International financial institutions (IFIs)** are aware that transparency is a key condition for ensuring that loans are well managed.

There has been a growing recognition of the importance of improved transparency in the extractive industries (EI). The Extractive Industries Transparency Initiative (EITI) was launched by the UK Government in 2002. This is a multi-stakeholder initiative involving a range of countries, companies, international financial institutions, civil society organisations and investment institutions. Each has

expressed support for the EITI principles and a pilot programme is currently underway. G8 members have acknowledged the importance of transparency through their commitment to their action plan (2002) on 'Fighting Corruption and Improving Transparency'. The EU, through amendments to the Transparency Obligations Directive (TOD), has also recognised the importance of transparency in the sector. The French Government has pledged direct support to the EITI, but few other G8 governments have shown signs of active commitment. A number of other initiatives, including those conducted by the Organisation for Economic Co-operation and Development (OECD), the IMF and the World Bank Group are also looking at ways to improve transparency in the extractive industries. Transparency is a growing topic of discussion in conferences and the press.

But beyond the rhetoric, who can really bring about change? What are they doing? And how do the different performances compare?

The 'Measuring Transparency' project was established to develop standards for three vital groups of actors – home governments (ie, those of countries where companies are registered and/or raising capital), companies and host governments – and to assess their progress over time.

This report focuses on companies. A sister report addresses home governments.<sup>7</sup>

### **1.3 The role of companies in promoting greater transparency**

If companies published what they paid to governments in each of the countries in which they operate, local citizens would be able to access, from company records, information on what their governments have received. This would allow them to engage more effectively with governments, and to press for better spending on basic services such as health and education. Companies can do this voluntarily, either alone or in co-operation with other

companies. To ensure a more systematic approach, such disclosure could be required by the home governments of countries in which companies are registered or raising capital. Companies could support this approach. These regulations would work in their interests in two ways: firstly, by levelling the playing field, and secondly, by providing better investment protection.

The EITI takes a different approach. It relies on host governments taking the lead and publishing the revenues they receive from companies. This is an important initiative and has made some progress in a few countries where the host government has been willing to act. However, by emphasising the role of host governments, the EITI has had the effect of shifting attention away from the responsibilities and potential contribution of home governments and 'their' companies.

### **1.4 Objectives of this report**

This report aims to put the focus back on the direct action that companies can take to support improved revenue payments transparency in the extractive industries. It attempts to define standards for the way that companies should operate and to assess practice against this standard.

More specifically, the report aims to:

1. set standards and compare company performance in supporting transparency
2. identify 'best practice' and gold standards on which other companies can model their reporting practices
3. identify upcoming initiatives companies are making and opportunities for improvements in the field of transparency.

### **1.5 Audience**

This report is for all those concerned with improving revenue transparency and lowering the risks that arise from poor accountability, including:

- companies wishing to benchmark their performance against competitors
- investors and rating agencies
- civil society – seeking to influence outcomes in this area.

## 1.6 Scope and timing

Due to resource limitations, only the upstream activities of oil and gas companies are covered in this analysis. The decision to prioritise these was based on the scale of revenues derived from the oil and gas sector in a broad range of countries and their anticipated expansion in a number of key developing countries, particularly in Africa, over the next ten years. However, it will be important to extend this study to the mining and minerals sector in a subsequent phase. The framework should also be used to assess host government performances. Given that the EITI is already undertaking work to measure progress in EITI host countries, this work was given lower priority until the EITI's framework is in place. However, this component may become a focus for the next phase.

Upstream operations for the oil and gas industry can be divided into three stages: exploration, development and production. Where companies are still at the exploration or development stages, not all the indicators could be tested. For example, if a commercial discovery has been made and activity has progressed to the development phase, information on production volumes or costs will not yet be available. Therefore, with a view to maintaining consistency of approach, companies were only included if operations had reached the production stage.<sup>8</sup>

Companies typically disclose more information about operations within their home countries than for those outside them. Again, to ensure comparability, companies were only assessed on their operations outside their home jurisdiction.<sup>9</sup>

Only information disclosed from 1 January 2004 through to 31 December 2004 was considered during research. The time period was limited to ensure that the information consulted was up to date.

The research was conducted between October 2004 and February 2005.

## 1.7 Coverage – Rationale for choice of company and country

The choice of companies to be studied was based on a desire to assess a diverse range of corporations and the need to include:

- all major international oil and gas companies
- a range of small and medium-sized oil and gas companies
- some state-owned oil companies
- companies with a range of commitments to transparency.

The selection of countries was influenced by the following criteria:

- locations where the above companies were operating
- range of geographic regions (Asia, Africa, central Asia)
- presence of an active and/or growing oil and gas sector
- range of involvement in/with EITI.

The countries included in the study are: Azerbaijan, Angola, Timor Leste, Indonesia, Nigeria and Venezuela. The companies covered by the study, their presence in the countries covered by the study, and their global scale of operations (indicated by global production volumes) are presented in Table 1 overleaf.

**Table I: List of companies surveyed**

<b>Company</b>	<b>Countries of Operation</b>	<b>Production Volumes (all figures in million barrels of oil equivalent unless otherwise noted)</b>
Amerada Hess	Azerbaijan, Indonesia	136.1
*BP	Angola, Azerbaijan, Indonesia, Venezuela	1316.2
*Chevron Texaco	Angola, Indonesia, Nigeria, Venezuela	920.9
CNPC	Azerbaijan, Venezuela	Oil – 122.42 million tons Gas – 26.27 billion m <sup>3</sup>
Conoco Phillips	East Timor, Indonesia, Nigeria, Venezuela	587.3
Devon Energy	Azerbaijan	228
Eni SpA	Angola, Indonesia, Nigeria, Venezuela	570.1
*ExxonMobil	Angola, Azerbaijan, Indonesia, Nigeria, Venezuela	1534.1
Lion Energy	Indonesia	0.19
Lukoil	Azerbaijan	Oil – 81.5 million tons Gas – 5.7 billion m <sup>3</sup>
Nexen Inc	Nigeria	98.2
Norsk Hydro	Angola	193.5
Paladin Resources	Indonesia	15.3
PetroChina	Indonesia	890
Petronas	Indonesia	552
Premier Oil	Indonesia	12.8
*Repsol YPF	Indonesia, Venezuela	413.2
*Shell	Nigeria, Venezuela	1423.5
Santos Limited	East Timor	54.2
*Statoil	Angola, Azerbaijan, Venezuela	394.2
Talisman Energy	Indonesia	138.2
*Total	Angola, Azerbaijan, Indonesia, Nigeria, Venezuela	926.7
TransAtlantic	Nigeria	0.76
Unocal Corporation	Azerbaijan, Indonesia	163.5
Woodside Petroleum	East Timor	0.059

\* denotes EITI participant

## 2 Methodology and approach

### 2.1 Survey of transparency initiatives and performance measures

In developing the methodology, a survey of relevant transparency-related initiatives and performance measures was undertaken in order to build on 'best practice'. A list of the material reviewed is presented in Appendix 3.

### 2.2 Reference group

Consultation and engagement with members of the reference group was a key part of the research process. Members assisted in designing the framework, developing the indicators/standards and reviewing findings. Members were drawn from a wide range of government, civil society, industry and investor organisations.<sup>10</sup>

It was not feasible to involve all 25 companies in the development of the framework. In order to maintain a 'level playing field' prior to performance assessment, individual company involvement was not sought at the design stage of the indicators. Oil and gas industry association representatives were invited to participate but they declined to provide feedback. These included the American Petroleum Institute, the International Association of Oil and Gas Producers, the Independent Petroleum Association of America, and the Oil Industry Accounting Committee.

### 2.3 Principles guiding the design of the methodology

In the general approach to the concept and design of the methodology, it was agreed that it must be:

1. **credible and robust** – able to deal with a range of features of both companies and countries and still allow comparison
2. **practical and not overly complex** – useable from a rating and lobbying point of view
3. **replicable and sustainable** – over the long term
4. **sufficiently sensitive** – to yield 'best' and 'worst' class performance and to demonstrate incremental progress being made
5. **transparent** – to support its credibility, as well as its accessibility, the methodology itself should be open to scrutiny.

There are tensions between some of these guiding principles, which are to be expected. For example, for credibility, the methodology must be sufficiently detailed to allow for precise collation and distillation of good-quality information and to permit comparison between actors. However, as the level of detail rises, the exercise becomes more costly and difficult to replicate and sustain in the long term. The methodology attempts to balance these sometimes-competing principles.

### 2.4 Framework of indicators

For the full list of indicators that also act as standards for good practice, please see Appendix 2.<sup>11</sup>

There are two key dimensions to the proposed framework of indicators: aspects of transparency and aspects of implementation.

## Dimension one – Categories of transparency

Three approaches through which companies should support transparency of revenue flows were defined. These are as follows:

### Category A – Revenue payments transparency

This category directly addresses the issue of revenue transparency in the extractive industries. It deals with the disclosure of benefit streams flowing from companies to countries and covers:

- production entitlements
- royalty payments
- taxes
- bonuses and fees.

### Category B – Supportive disclosure

In order for citizens and investors to assess the accuracy of revenue disclosure and to anticipate future revenue trends, disclosure of other types of information is required. Category B deals with country-level disclosures of such information in annual reports, annual information forms and other similar documents. It covers:

- **general information:** disclosure of global and local corporate structure and details of production and legal regimes for key properties
- **production and reserves:** disclosure of recent and future production volumes, and the quantity and value of reserves
- **company financials:** disclosure of company revenues, costs and profits.

### Category C – Anti-corruption and whistle-blowing

Sustainable disclosure on issues specific to the extractive industries needs to be supported by an environment that broadly supports transparency and good governance. This category addresses issues such as corruption, whistle-blowing and the censuring of employees violating company policy.

## Dimension two – Aspects of implementation

The most important measure of progress is whether necessary information is being disclosed. However, there are many stages between making commitments and putting them into practice. In an attempt to capture progress and diagnose where the blockages lie, consideration was given to developing indicators for each of the categories across three aspects of implementation:

- **policy** – does the company have a policy on the issue?
- **management systems** – has the company created systems and allocated resources to ensure successful implementation?
- **performance** – has a good outcome been achieved in terms of disclosure of information?

However, not all of these aspects of implementation have been used for each category of transparency.

**Category A – Revenue payments transparency** is less strictly regulated by home government regulations, and companies have some degree of autonomy in the direction they take in this area. Since companies have a degree of self-control over the issue of revenue payments, it was felt all three aspects of implementation should be analysed in this area. Doing so would yield the most complete picture of how much progress has been made and where obstacles exist.

**Category B – Supportive disclosure** relates to information that oil and gas companies generally provide through their annual reports. Most of this information is disclosed pursuant to requirements imposed by the home countries in which companies are publicly listed or incorporated. The disclosure requirements are generally given effect through accounting standards, securities regulation or stock exchange rules. Since home governments impose the rules or policies regarding what information companies must make available, it was not considered relevant to examine company policy or management systems in category B.

### Category C – Anti-corruption and whistle-blowing

is another area where companies have some control over the approach they take. There are laws that dictate what sort of practices companies and their employees may utilise,<sup>12</sup> but corporations are responsible for internal regulation. As such, it was deemed important to assess all three aspects of implementation in this category.

## 2.5 Scoring

The entire framework has been scored on a binary (yes/no) basis. This approach was adopted to minimise the amount of subjectivity applied in scoring the indicators. Although all indicators were assessed on a binary basis, some of them were assigned a double-weighting to reflect the fact that they deal with more important information (see section 2.6 for details).

### Audited versus un-audited information

Initially, a differential scoring system was envisaged, based on whether the information disclosed for the above indicators was audited or not. That approach would have awarded full points for audited information and half-points for disclosure of non-audited figures. As the research got underway, it became clear that the auditors' statements which accompany annual reports and corporate responsibility reports do not include all the figures disclosed in those reports within the scope of their audit. During meetings and conference calls with companies, it was made clear that although auditors' reports do not explicitly cover the information asked for by the indicators listed above, much of it is subjected to internal audit.

However, this fact would not be apparent to a layperson analysing a company's annual report, and so only partial scores could be awarded using the envisaged framework. As would be expected, this lowered overall scores. In light of the feedback provided by companies, and the negative impact on scores, the differential scoring system based on audit was reconsidered. Full points have now been awarded

for non-audited information. However, in the interests of true transparency it is important that disclosure of information is tied to a clear audit trail. As such, it is suggested that the industry should move towards adopting such an approach in its reporting practices. When the framework is used in future measurements of performance, only audited information will receive full points.

Local consultants were engaged to determine if information disclosed pursuant to country-level requirements differs from the material made available on the company website. Indicators 12–17 and 19–30 were assessed during in-country research. Any information that was available to the public in the country as a result of regulation or through local publication was awarded one point on these indicators. If the same information was made available through the company website, two points were awarded.

## 2.6 Weighting

In assessing overall company performance, the categories were assigned different weights as follows:

**Table 2: Weighting approach**

Category	Weight
A – Revenue payments transparency	45%
B – Supportive disclosure	45%
C – Anti-corruption and whistle-blowing	10%

This weighting system was reviewed and agreed upon in the reference group. The heart of revenue transparency lies in the information provided in category A. Category B ('Supportive disclosure'), as its name suggests, serves to complement category A. It does not directly address the issue of revenue payments transparency but offers important and relevant information necessary to judge the general accuracy of revenue payments information and project trends in

payments. In theory, this category should receive lower weighting given its secondary importance. However, transparency of revenue payments is poorly developed, and very few companies are currently scoring well in this category. It was also considered important to give credit for disclosure where it does occur. Since current transparency practice is better for supportive disclosure, the category was given the same weighting as category A. However, as revenue payments disclosure performance improves in the industry, this weighting should be altered to put greater emphasis on category A. Anti-corruption and whistle-blowing was agreed to be the least important aspect of company transparency. As such, this category was assigned a 10 per cent weighting. For stakeholders or companies with a particular interest in performance in a certain category, the weightings can be adjusted according to their preferences

## 2.7 Research process

### Use of publicly versus privately available information

At the heart of the drive towards transparency is the need for information to be accessible to the citizens of host countries, and also to prospective investors. This requires information to be available in the public domain.

Central to the methodology of this research, is the approach of comparing company performance. This limits the use of data for scoring to that which is potentially available – and verifiable – on a systematic basis for each company.

For both these reasons, and in order to be considered for scoring, information on company practices had to be in the public domain.

We recognise that company practice can involve behind the scenes negotiation with host governments in order to secure the publishing of revenue flows. Where this has resulted in improved disclosure, this is reflected in the company's score. During meetings with

companies, some disclosed information about such negotiations and internal processes that are ongoing, and by their very nature, precluded the possibility of 'going public'. While the focus of this report is on company efforts to disclose publicly, it also recognises the importance of this qualitative progress as an integral part of the drive towards greater transparency. However, given the difficulty of verifying privately disclosed information, unless companies could demonstrate that this information was available to the public, their comments regarding internal processes were not considered grounds for changing scores.

### Sources of information

There were two main components to the research process:

1. desk-based research
2. in-country research.

#### Desk-based research

Desk-based research was conducted by assessing what was available in the public domain. This component of the research consulted information made available on company websites. All of the surveyed companies had English-language websites.

The types of information consulted included annual reports, quarterly reports, Securities Exchange Commission filings, annual information forms, corporate responsibility, sustainability reports or equivalents, country-specific reports or web-pages, codes of conduct or equivalents, statements of policy, press releases, fact books or other operating-specific information.

#### In-country research

Consultants were employed to assess how much information, if any, about company operations is made available to the general public in host countries, and to assist in any necessary translation. The main purpose of this was to supplement the desk-based research by determining whether in-country disclosure reflected or differed from what was publicly available through company websites. The general procedure followed by

the in-country researchers, subject to prevailing business practices in the individual countries, was as follows:

1. determination of the corporate structure used in-country, ie what, if any, subsidiaries does the company operate through
2. determination of what, if any, material such as annual reports, operating information and corporate social responsibility reports of the company or its subsidiaries were filed with governmental bodies. If any such filings were found, researchers were then to determine whether the material is made available to the general public
3. application of the country-specific indicators to any material made available to the public.

### **Verification of findings – Follow-up with companies**

The research results were presented to the companies, and requests for a meeting or conference call were made. There were two main purposes to this engagement:

1. to verify the accuracy of the research results
2. to provide companies with an opportunity to discuss their future initiatives and approach to transparency.

The verification process was based on receiving feedback from companies through meetings or conference calls. Detailed responses were received from ten companies. Three companies declined to participate, and the rest provided a more limited response.<sup>13</sup> Significant efforts were made to encourage and facilitate company participation.

# 3 Results

## 3.1 Overall company rankings

This section addresses overall company performance and ranking across all three categories of disclosure.

Note: Detailed company results are too extensive to present here but are available on Save the Children UK's website.<sup>14</sup>

### Key findings for overall performance

#### Generally poor transparency practice

The overall results are poor. Twenty-three of the 25 companies score less than 30 per cent. Fifteen of the companies scored zero on revenue payments disclosure and almost all scored less than 40 per cent on supportive disclosure.

Performance is partly low because companies typically disclose on a geographical 'segmented' basis that covers multiple countries. By not disclosing on a national basis, citizens in countries where extraction is taking place are unable to identify what information relates to their country.

These results indicate there is substantial room for improvement. The information should serve as a useful baseline against which future performance can be compared.

#### A clear leader shows that better practice is possible

Talisman leads the field with a score of 69 per cent, followed by TransAtlantic at 44 per cent. These two Canadian companies are far ahead of the rest.

#### Uneven performance by EITI signatories

Of the seven companies that appear as participants on the EITI website,<sup>15</sup> only four (Shell, Chevron Texaco,

BP and Statoil) have publicly disclosed any payments to any of the governments covered by this study. Even among these four, each had operations in other countries where no revenue payments were disclosed. The other three (ExxonMobil, Repsol and Total) have not provided any information on revenue payments to any of these governments. In fact, only four companies had lower overall scores than Total. Performance by these EITI signatories clearly illustrates that the voluntary process has its limitations.

It is true that the current approach of EITI means member companies are not bound to publish revenue payments. However, becoming a signatory does mean that a company's management has considered the issue of transparency important enough to become a 'participant'. Results indicate that this does not appear to have always translated into either clear policies or performance.

#### Poor performing companies demonstrate need for stronger mechanisms

In terms of overall scores, PetroChina and Petronas (2.6 per cent) are at the bottom of the table. Petronas is Malaysia's national petroleum corporation and is wholly owned by the Government. PetroChina is the largest listed subsidiary of the Chinese National Petroleum Corporation (CNPC),<sup>16</sup> which finished one place above its subsidiary in a tie with Lukoil (5 per cent). Only one place above this is Total (9.5 per cent) – a surprising result for this European EITI participant.

#### Home governments play a vital role in improving transparency

Overall leadership on transparency comes from a company outside the EITI process. Talisman tops the league, and on supportive disclosure three of the top five companies are Canadian (Talisman, Nexen and

**Table 3: Overall company rankings (weighted)**

<b>Company</b>	<b>Category A Revenue Payments Transparency</b>	<b>Category B Supportive Disclosure</b>	<b>Category C Anti-corruption and Whistle-blowing</b>	<b>Weighted Overall Total</b>	<b>Rank</b>
Talisman Energy	27.4%	34.4%	7.1%	68.9%	1
TransAtlantic Petroleum	9.8%	34.4%	0.0%	44.2%	2
Shell	13.7%	6.6%	8.6%	28.9%	3
Chevron Texaco	6.4%	15.2%	7.1%	28.7%	4
Nexen Inc	0.0%	18.5%	8.6%	27.1%	5
BP	7.8%	9.3%	10.0%	27.1%	6
Statoil	7.8%	10.6%	7.1%	25.6%	7
ExxonMobil	3.9%	12.7%	7.1%	23.8%	8
Unocal Corporation	0.0%	15.9%	7.1%	23.0%	9
Paladin Resources	0.0%	21.2%	0.0%	21.2%	10
Lion Energy	5.9%	10.6%	4.3%	20.7%	11
Norsk Hydro	0.0%	13.2%	7.1%	20.4%	12
Amerada Hess	0.0%	10.6%	8.6%	19.2%	13
Conoco Phillips	0.0%	11.9%	7.1%	19.1%	14
Eni SpA	0.0%	9.9%	8.6%	18.5%	15
Devon Energy	0.0%	10.6%	7.1%	17.7%	16
Santos Limited	0.0%	15.9%	0.0%	15.9%	17
Woodside Petroleum	0.0%	10.6%	4.3%	14.9%	18
Repsol YPF	2.0%	6.6%	4.3%	12.9%	19
Premier Oil	0.0%	10.6%	1.4%	12.0%	20
Total	2.9%	3.7%	2.9%	9.5%	21
CNPC	0.0%	5.3%	0.0%	5.3%	22
Lukoil	0.0%	5.3%	0.0%	5.3%	22
PetroChina	0.0%	2.6%	0.0%	2.6%	24
Petronas	0.0%	2.6%	0.0%	2.6%	24

TransAtlantic). This suggests a link between Canadian Government disclosure requirements and the performance of Canadian companies.

Canada is the only country with any requirements for disclosure of revenue payments at country-level (through its securities legislation).<sup>17</sup> This result highlights the vital role that a mandatory approach can play in setting good standards and producing a systematic impact in all the host countries in which the companies are operating. Canada also demonstrates that it is possible for a home government to lead from the front. (See the next chapter for more details on home government regulations.)

### **The voluntary approach has also yielded good but limited progress**

Companies claim that they can only move as fast as the host government will let them. Yet the results show considerable variation in disclosure performance by different companies *within the same country*. Best voluntary practice relies upon negotiation of disclosures with particular host governments (eg Shell in Nigeria, BP in Azerbaijan, Chevron Texaco in Angola). These are admirable examples of good practice. However, they are not replicated in the other countries in which these companies operate.

Talisman takes a different approach. It publishes royalty payments, taxes and bonuses paid in all countries of operation. This information is gathered during the company's annual reporting process and condensed into a two-page table in its *Corporate Responsibility Report*. Talisman has implemented this method across all of its countries of operation.

### **Practical concerns over such disclosure can be overcome**

Some companies expressed concern that it would be too costly to publish on a national basis and that the volume of information would be overwhelming. But information is typically being gathered on a country level and then consolidated by group headquarters. It should not be difficult to make it available on a website. To make it of more practical use to citizens of host countries, tables presenting concise summaries

on a national basis are useful, as Talisman has demonstrated. A reporting template is provided for companies to refer to and use (see Appendix 5).

### **Anti-corruption and whistle-blowing – better but still room for improvement**

The overall results are much better and 13 of 25 companies finished above 70 per cent. However, seven companies scored zero. BP leads the way with a full score, demonstrating that it is possible to reach a gold standard. Other companies, particularly those scoring zero, should aspire to the same.

## **3.2 Revenue payments transparency – Results**

This section assesses corporate policies, management systems and performance on disclosure of revenues paid to host governments. Indicators used to measure performance are illustrated in Table 4 opposite.

### **Overall results for companies**

#### **Poor overall practice in revenue payments transparency**

General performance is very poor. Fifteen of the 25 companies surveyed scored zero, indicating that general transparency of revenue payments has not yet taken root in the industry.

#### **Leader – A systematic multi-country approach**

Talisman leads the field in this category, scoring very strongly in the performance and management systems indicators but dropping some points in the policy section of the category.

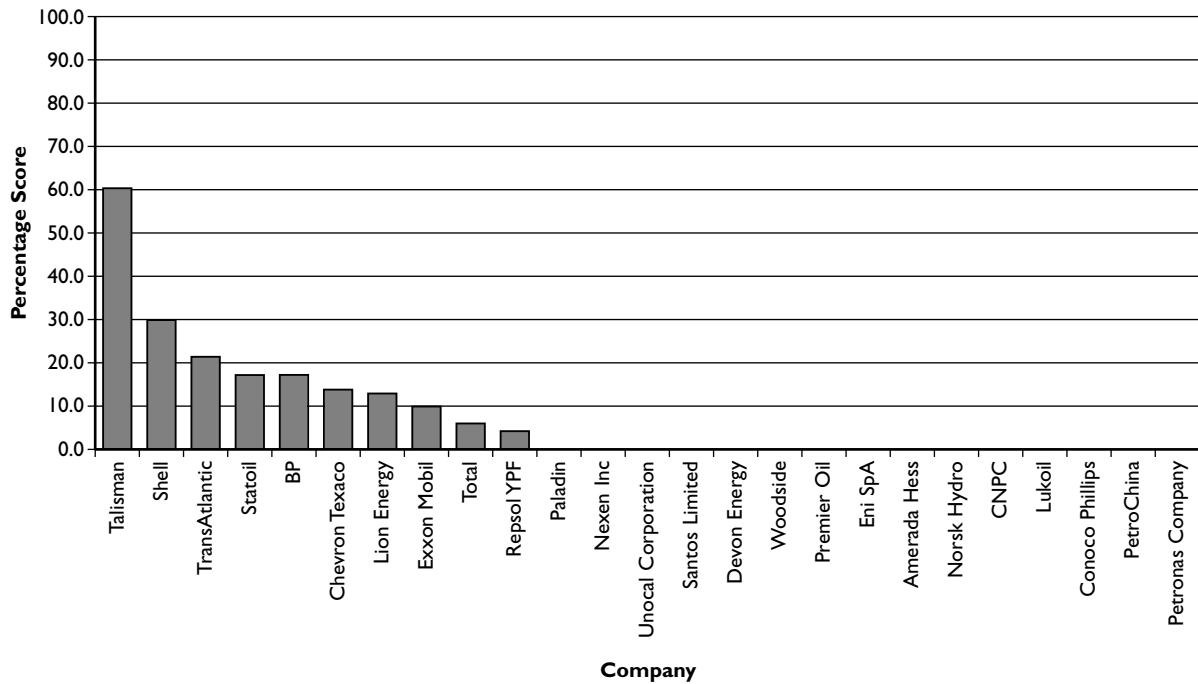
Talisman's approach to transparency is to extract information during its annual reporting process, and compile it in an easily accessible format that presents the information on a country-by-country basis.<sup>18</sup>

This information is then presented in the company's *Corporate Responsibility Report*, which discloses details of production volumes, gross sales revenues,

Table 4: Revenue payments transparency indicators

Number	Indicator	Possible Score
<b>Policy</b>		
1	Has the company made a public declaration committing itself to the transparency of revenue payments in all countries of operation?	1
Has the company made a public declaration committing itself to:		
2	– corporate reporting on a national basis?	1
3	– the breakdown of revenue payments into relevant categories (as illustrated in questions 11–15	1
4	– the disclosure of material contracts for all host countries?	1
5	– the disclosure of material payments in cash or in kind to parties related to contracts?	1
6	Is the company a GRI Organisational Stakeholder, and/or does the company have an active policy on, and involvement with, EITI implementation?	1
<b>Management Systems</b>		
7	Does the company publicly provide evidence of the assignment of strategic responsibility for transparency of revenue payments at the board or senior management level?	1
8	Does the company publicly provide evidence of engagement with stakeholders on issues of revenue transparency?	1
9	Do the company's contracts in Country X have a confidentiality clause covering disclosure of revenue payment information?*	1
<b>Performance</b>		
10	Does the company disclose payments (in cash or in kind) to separate host governments or host government's entities, and are at least 50% of those payments broken down by country?	2
11	Does the company disclose payments (in cash or in kind) to host governments or host government's entities, and are at least 99% of those payments broken down by country?	2
12	Are the recipients broken down by levels of government, parastatals, and other related companies	1
Are the payments for operations in Country X broken down into:		
13	– production entitlements?	2
14	– royalty payments?	2
15	– bonuses and fees (including licensing fees)?	2
16	– taxes?	2
17	Does the company provide revenue payments information locally, ie, through local media or locally published corporate materials?	1
<b>Section Score</b>		23

\*For Indicator 9, no = 1 and yes = 0



Graph 2: Revenue payments (unweighted)

exploration and development expenditures, royalties and taxes by each country of operation. Where no information is available, for example, where no revenues were generated, this is clearly indicated. The information is extracted from the audited financial statements of the company for the year ending 31 December, 2003. The 2003 report provides this information for Indonesia, Malaysia, Vietnam, Algeria, Sudan, Trinidad, Colombia and Qatar. In addition, any ‘material’ payments (CDN \$1 million or greater) are also disclosed.<sup>19</sup>

Talisman’s approach not only represents best practice in Indonesia, but also its style of reporting, particularly for clarity, consistency and conciseness, makes it a useful guide towards general best practice in the industry. Information is taken from the audited financial statements, and the corporate responsibility report is covered by a separate auditor’s report.

**Country-specific initiatives – good practice on an ad hoc basis**

Shell has the second-highest overall score because of its progressive disclosure practices in one country of operation, Nigeria. In fact, Shell’s score on the

country-specific indicators for Nigeria, 82 per cent, is higher than Talisman’s own country-specific score, but its overall result dips when its weak disclosure practices in Venezuela are included. TransAtlantic Petroleum rounds out the top three. BP, tied with Statoil in fourth position, is in a similar situation to Shell. It has the third-highest score for an individual country (Azerbaijan) but this is weakened by a lack of disclosure in other countries.

**Performance not always reflected at policy level**

As with Talisman, Shell’s score on revenue payments is negatively affected by a low score in its global-level policy indicators. This is also true of BP, but to a lesser extent. These results indicate that, at this stage in the development of revenue payments transparency, the leading companies have emphasised the importance of disclosure of information over the formal establishment of policies. This observation is supported by feedback received from Talisman; and other companies expressed similar views.

However, a firm policy on disclosure is an important indicator of a company’s intent to disclose on a regular rather than an ad hoc basis. It is vital if sustained and

consistent revenue transparency is to take place, and it is important if members of civil society (citizens, investors, non-governmental organisations) are to judge a company's commitments to transparency.

### **Conversely, policy not translated into performance**

Statoil, which ranks fourth overall, exhibits a different tendency. It scores more strongly on the policy indicators than on the performance indicators. Since the policy and most of the management systems indicators (also an area of strength for the company) are measured at global level, Statoil's score is more consistent in all countries of operation. While this consistency is laudable, it is unfortunately not reflected in its disclosure practices, which are weaker.

It should be noted that Statoil's Nigerian operations are not included in its averaged score in this category as they have not commenced production in that country.<sup>20</sup> However, they have still disclosed audited details of a signature bonus paid to Nigeria in their sustainable development report in 2003. Signature bonuses are common in many oil-producing countries. A payment is made up front to the host country for the right to develop a block commercially before work begins.<sup>21</sup> Based on this information and Statoil's performance, it is clear that even companies not yet at the production stage can disclose details of bonus payments.

### **Involvement with EITI does not always translate into company transparency**

ExxonMobil, Repsol and Total are members of EITI but did not receive any marks for performance in disclosing revenue payments to host governments. We recognise that becoming a member of EITI does not include a commitment to disclose company revenue payments. However, it does include a commitment to the principle of improved transparency. It is interesting to note that other, non-EITI signatories are able to publish some information on the payments they are making to governments in the same countries in which these three are operating.

### **The collective approach yields results**

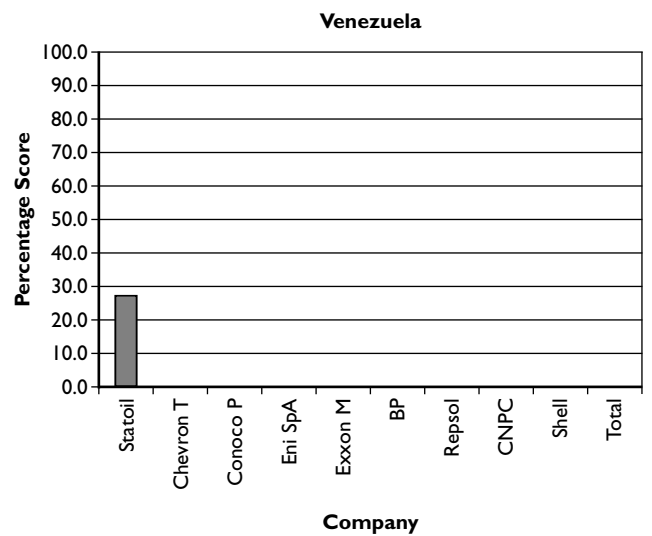
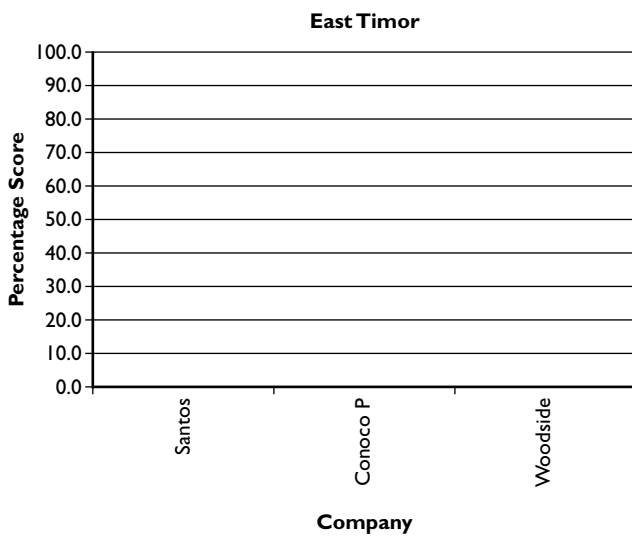
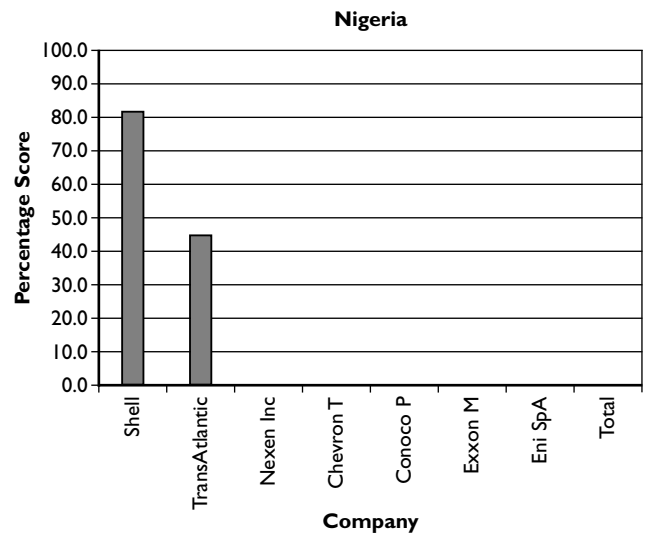
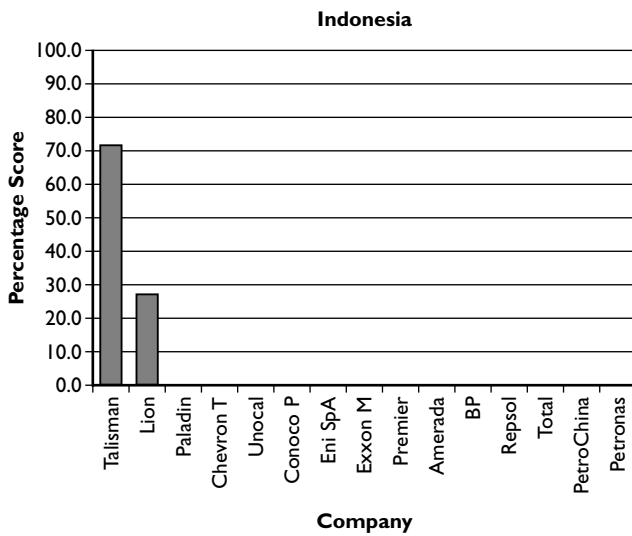
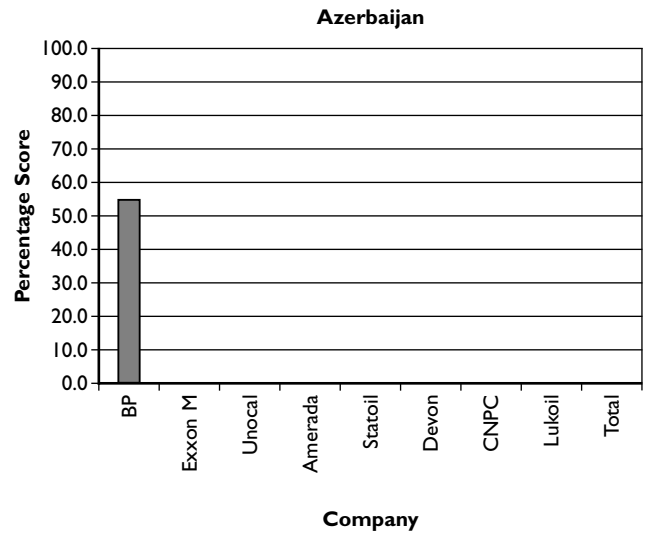
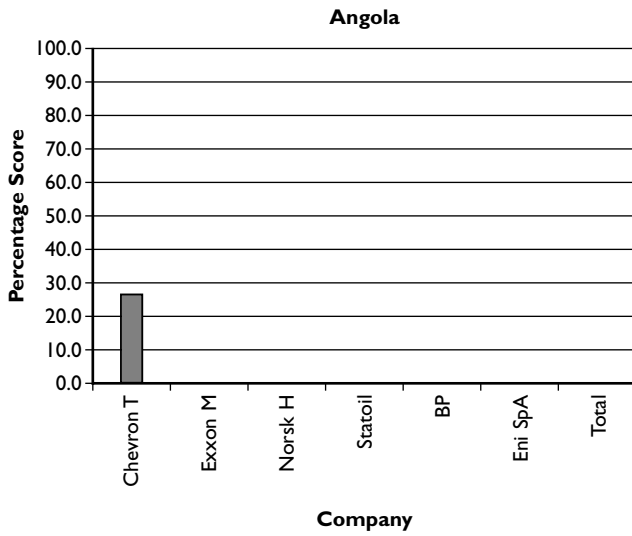
Chevron Texaco, which finished sixth in this category, made an important announcement on 1 February, 2005.<sup>22</sup> Chevron Texaco JDZ Limited signed a production sharing contract (PSC) with the Nigeria / São Tomé and Príncipe Joint Development Authority. Chevron Texaco will operate the project and the co-venturers include ExxonMobil and Dangote Energy. The PSC contains a transparency clause which requires that all payments (including production bonuses, signature bonuses, profit oil and lifting costs) be disclosed to the Joint Development Authority, which will then, in accordance with the terms of the clause, publish this information on its website.<sup>23</sup> This is an important step forward in the drive towards greater revenue payments transparency, and inclusion of this transparency clause in a PSC is an encouraging development. It also demonstrates the power of the collective voluntary approach in supporting transparency. The scores for these companies will go up when the project reaches the stage of production and they disclose all revenue payments to the two governments.

### **Results by host country**

The revenue payments category contains a mix of global and country-specific questions. As policy and management systems are generally imposed at company headquarters level, and therefore should, in theory, apply to all parts of the company, they were tested at global level. In contrast, performance in disclosing revenue payments to host governments was undertaken in relation to the six specific countries selected for the study. The graphs overleaf only display the results of the country-specific indicators to give a clearer picture of company performance in each nation.

### **Overall**

Actual disclosure of revenue payments on a country-specific basis is very rare. Of the 52 country-specific operations surveyed, only seven scored points for country-specific disclosure. Of these seven, only three operations, Shell in Nigeria, Talisman in Indonesia and BP in Azerbaijan, scored above 50 per cent. These three operations aside, results are discouraging.



Graph 3: Revenue payments by country (unweighted)

Of these countries, Nigeria and Azerbaijan are implementing EITI, and Angola and Timor Leste are engaged in ongoing discussions on possible implementation.<sup>24</sup>

### Angola

Of the seven companies with operations in Angola that were surveyed, only Chevron Texaco disclosed details of a payment. Although its contracts in the country are covered by confidentiality clauses, the Government of Angola and its national oil company, Sonangol, agreed to a waiver of the clause to disclose details of a signature bonus and a social bonus<sup>25</sup> – a move its partner, the Cabinda Gulf Oil Company (a subsidiary of Chevron Texaco) fully supported.<sup>26</sup> While companies argue that they cannot act unilaterally for fear of damaging their relations with the Angolan Government, the approach taken by Chevron Texaco shows that it is possible to work with the Government to achieve greater transparency.

Angola has not ‘joined’ EITI, though it has been involved in discussions on implementation.<sup>27</sup> While it is not clear if the Government will formally engage with the process, pressure from donor organisations and civil society means that the Government is now aware of the importance of transparency. Now that a precedent for payment of bonuses has been set, other companies could engage with the Government and the state-owned oil company, Sonangol, on the feasibility of disclosing future payments and different types of revenue streams.

If it became an EITI participant, Angola could serve as an interesting benchmark to gauge the impact of EITI implementation. The current level of disclosure is virtually zero, with only one company disclosing details of one payment. Companies operating in Angola should be covered in future studies to determine whether adoption of the initiative has had any material effect on their disclosure practices.

### Azerbaijan

Azerbaijan is an important case because of its prominence as an EITI pilot country. The National EITI Committee, foreign and domestic oil companies and non-governmental organisations have agreed

to a memorandum of understanding on EITI implementation.<sup>28</sup> The memorandum stipulates that the EITI committee and the local and foreign companies operating in the oil and gas production industry will produce a biennial report using EITI-recommended reporting templates. All information is to be analysed and collated by an independent audit company. Deloitte & Touche has been selected to conduct the collation and to provide a report to all parties to the memorandum. The parties will then develop and publish a joint press release regarding the EITI Committee’s report and the independent accountant’s report.<sup>29</sup>

Current company disclosure is poor. Out of the nine companies with producing operations in Azerbaijan, only BP disclosed any details of payments to the Government. The company publishes an Azerbaijan sustainability report, and the 2003 version discloses that 8.2 million barrels of profit oil were paid to the Government that year. The report contains more economic information, including a forecast of potential revenues flowing to the Government from BP’s operations.<sup>30</sup>

A view commonly expressed by companies is that revenue transparency is a host government issue and they are willing to comply with and assist governments in any advances made in that arena. While the developments on EITI implementation in Azerbaijan are very positive, there is a concern that companies will consider their responsibilities discharged once they have submitted reporting material to Deloitte & Touche for collation. But the issue of how the information will be reported is still in question. Reporting of payments is likely to be on an aggregated basis, combining all payments made by all companies, domestic and foreign, to the Government, rather than on a company-by-company basis. This approach will result in greater transparency around the revenue received by the Government, one of the principal goals of EITI, but aggregated reporting will not reveal information about individual companies. If individual company payments are disclosed, this would provide a further means of confirming the accuracy of government receipts and would thereby increase transparency in the country.

The journey towards greater transparency in Azerbaijan is underway. The fact that the Government is implementing EITI and that BP has published a detailed report discussing its economic activity indicates that the Government is more open to disclosure of revenue payments. Companies should follow BP's example and publish payments made to the Government in addition to continuing to work on the terms agreed by the memorandum of understanding.

### **Indonesia**

Talisman's 73 per cent score in this country is clear evidence that disclosure of revenue payments is possible in Indonesia. However, only one of the remaining 14 companies disclosed any information at all. Lion Energy (Australia) disclosed the Government's percentage entitlement to production on one of its properties.<sup>31</sup>

### **Nigeria**

Shell's performance in Nigeria is the single highest country-specific score in the revenue payments transparency category. After Shell comes TransAtlantic Petroleum with a score of 45 per cent. From there, the pattern is similar to other countries; the remaining six companies did not disclose any information.

So if Shell can score 82 per cent, why do most of the remaining companies score zero? The Government has taken an active approach to the issue of revenue payments transparency. President Olusegun Obasanjo committed to EITI in November 2003 and launched EITI Nigeria in February 2004.<sup>32</sup> While these are relatively recent developments, they do demonstrate that Nigeria has been working on this issue. Outside of Shell and TransAtlantic, the same cannot be said for other companies operating in Nigeria.

Like Azerbaijan, Nigeria is an EITI-implementing country and, as a result, companies appear to be taking a wait-and-see approach to disclosure of their revenue payments. But the Nigerian Government has adopted a pioneering approach to EITI by including the requirement for all companies to publish what

they pay to the government. When this comes into practice, scores for all companies will be forced to rise.

### **Timor Leste**

Timor Leste expressed interest in becoming an EITI pilot in 2002. Since then, its Government has been drafting legislation for regulation of the oil industry. Civil society groups have urged the Government to include a legal requirement for the companies to publish their payments to the Government. Since not all the legislation has been finalised, it is too early to say whether this will be included or not. However, some types of revenue payments will flow directly to the Government and others indirectly via the Timor Sea Designated Authority, a body jointly controlled by Timor Leste and Australia, which regulates the joint development zone between the two countries.

None of the three companies with production interests in the country studied here (ConocoPhillips, Santos and Woodside Petroleum) have since disclosed any details of payments to the Government. Santos and Woodside Petroleum only operate in Timor Leste. ConocoPhillips has operations in Indonesia, Nigeria and Venezuela, and scores zero in those countries as well.

### **Venezuela**

Venezuela is one of the top ten crude oil producers in the world and one of the largest suppliers of oil to the US. Of the ten companies operating in Venezuela studied, nine did not disclose details of any revenue payments. Of the companies that have scored highly in other countries in this category, only Shell is active in Venezuela, and it scores zero. Only the Norwegian state-owned Statoil, with a score of 27.3 per cent, produced any results. In its sustainable development report, the company disclosed that a 'signature bonus of \$32 million was paid when we secured the operation of block four in the Plataforma Deltana area off Venezuela in 2003'.<sup>33</sup> The auditors' report that accompanies the sustainable development report explicitly covers this figure, something that is not common, even among the leaders in this category, regardless of country of operation. However,

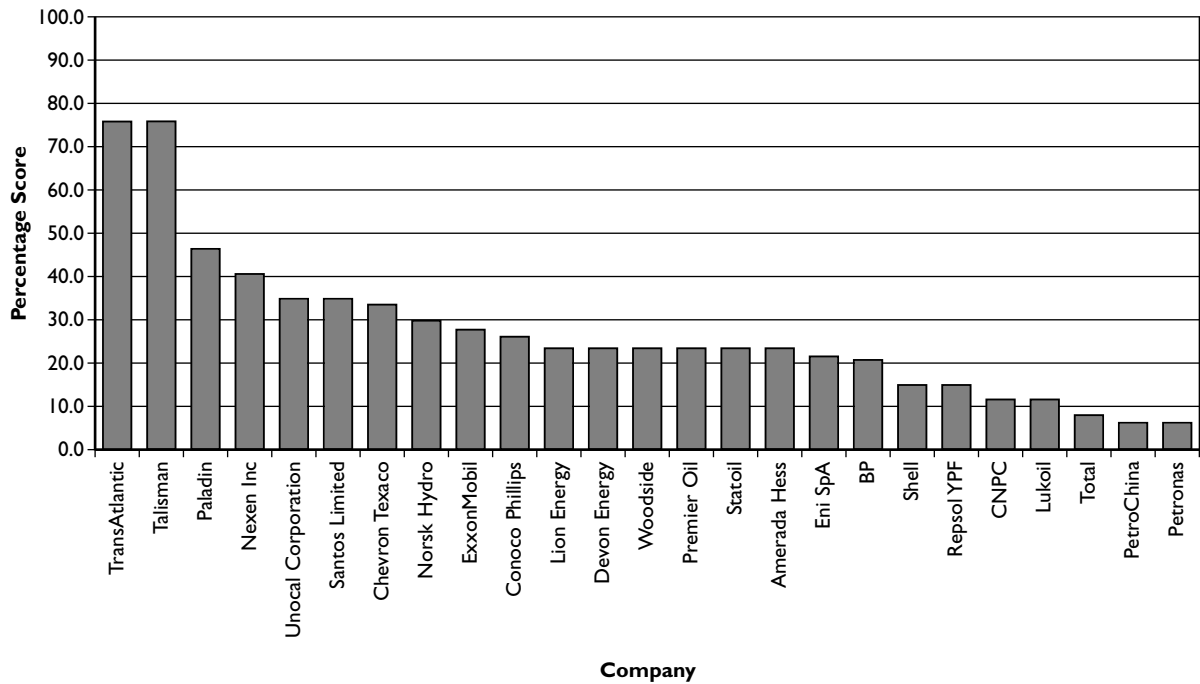
Statoil does not reveal the details of other revenue streams flowing to the Government. So there appears to be some room for manoeuvre for greater transparency. This country warrants a great deal more focus for action – by both companies and civil society alike.

### 3.3 Supportive disclosure – Results

This section addresses company performance in the second of the framework categories, supportive disclosure. The indicators covered in this section are as illustrated below.

**Table 5: Supportive disclosure indicators**

Number	Indicator	Possible Score
<b>Performance</b>		
<b>General information</b>		
18	Does the company publicly disclose the names of its significant or material subsidiaries and their countries of incorporation?	1
Does the company publicly disclose for its operations in Country X:		
19	– the names of all of its subsidiaries operating in the country?	1
20	– names and production of key properties?	1
21	– contract regimes used (ie, production sharing, concession system, joint venture company, risk services) for all key properties?	1
<b>Production and reserves</b>		
Does the company publicly disclose for its operations in Country X:		
22	– production volumes?	1
23	– an estimate of future production volumes?	1
24	– a measure of reserves?	1
25	– a standardised measure of the present value of reserves?	1
<b>Company financials</b>		
Does the company publicly disclose for its operations in Country X:		
26	– revenue?	2
27	– production costs?	2
28	– development and exploration costs or capital expenditures?	2
29	– profit before tax?	2
30	Does the company provide financial information in a locally available format, ie, through local media or locally published corporate materials?	1
<b>Section Score</b>		17



Graph 4: Supportive disclosure (unweighted)

## Overall results for companies

### Better performance than on revenue payments disclosure but still disappointing

Performance in this category varies widely, from the leaders at 76 per cent to the laggards at 6 per cent. The average is better than for revenue payments transparency but still leaves great room for improvement. The worst performers are PetroChina and Petronas. CNPC and Lukoil are second-last and these results may be linked to the problems with corruption in these companies’ home jurisdictions. Total’s poor result, in between the two groups, is surprising for a European company signed up to the EITI process.

### Lack of country-by-country information

While a lot of the information tested for in this category is discussed in annual reports, the prevailing tendency is to disclose by geographic segments rather than on a country-by-country basis. This approach is in line with the majority of reporting requirements imposed by most home governments. Reporting by geographic segment has resulted in low scores across the board, with 23 of the 25 companies scoring below

50 per cent, and 21 of 25 at 35 per cent or below. As discussed, such reporting is of little use to the citizens of host countries seeking to understand what revenues their governments have received.

### Problems created by narrative qualitative information

Many of the larger companies tend to provide similar levels of quantitative disclosure on all of the countries in which they operate, with the major variation coming in terms of the qualitative information provided. Unfortunately, this type of information does not always translate into positive scoring in the framework due to the uncertainty that can exist in qualitative disclosure and its variability in coverage of different countries. For example, information regarding production volumes, reserves and contract regimes is often disclosed on a property-by-property basis. This is informative, but because not all properties are always covered, it is difficult to obtain a clear picture of the overall scale of operations in a country. Summary quantitative information that covers all indicators on a country-by-country basis would produce much higher scores.

### **Leaders – global impact of Canadian regulation on companies**

Three of the top four companies in this category are Canadian. TransAtlantic Petroleum, with principle assets in the US and Nigeria, finished first, with Talisman, Paladin and Nexen finishing third and fourth, respectively.

Company performance has much to do with the home government's regulatory requirements. Currently, the only home government that requires disclosure of most of this category's information on a country-by-country basis is Canada. The stricter legislative regime in this country has contributed to the stronger performance of the Canadian companies. Similarly, the absence of regulations requiring reporting on a country-specific basis has contributed to the low scores of non-Canadian companies. This illustrates that considerable power in supporting company performance in this category lies with home governments. Since they have the power to require their companies to report information on a country-by-country basis, they also have the power to improve performance. The Canadian example demonstrates that this is possible.

### **The importance of audited information**

It should be noted that Talisman and Paladin disclosed a mixture of audited and un-audited information, while TransAtlantic and Nexen, like most other companies, disclosed un-audited information. If companies had been awarded only half points for disclosure of un-audited information, as was originally contemplated, scoring across the board would have been lower. Given the premium attached to accurate, reported information as a necessary prerequisite to genuine transparency, future performance measurements will take into account whether information is audited or not.

Feedback from companies has suggested that some of the information covered by the indicators in this category is audited on a regular basis by partners and various government authorities – in addition to being audited by the company's own external auditors.<sup>34</sup> If this is the case, then it should not be overly difficult

for companies to produce an auditor report that covers this information. Instead, the independent auditors' statements that accompany annual reports generally cover information such as income statements, balance sheets, cash flow statements, statements of total recognised gains and losses, accounting policies and notes on accounts. Information on production and reserves is usually disclosed in the un-audited supplementary oil and gas information document that accompanies the annual report. If this information is audited on a routine basis, as has been suggested by companies, then perhaps an auditors' statement should accompany the supplement.

### **Analysis by host country**

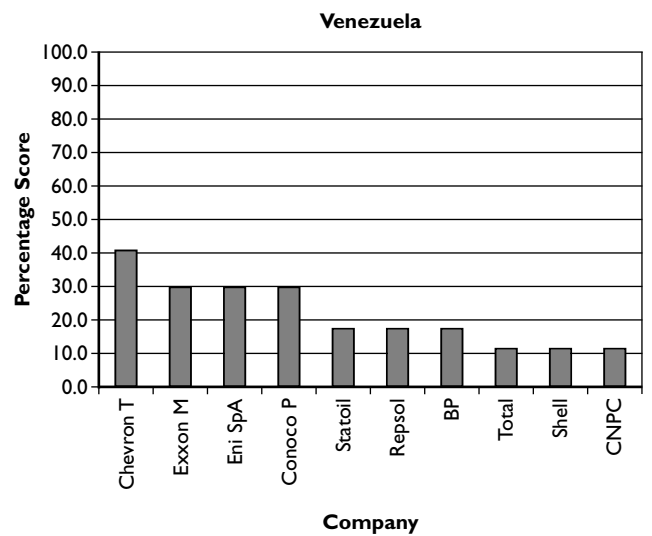
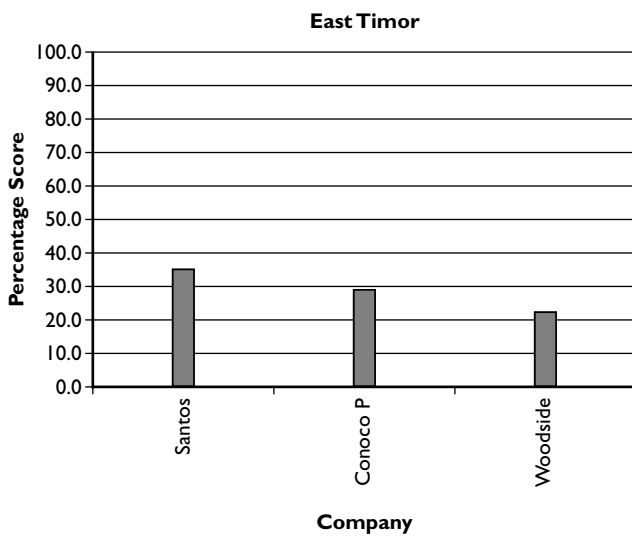
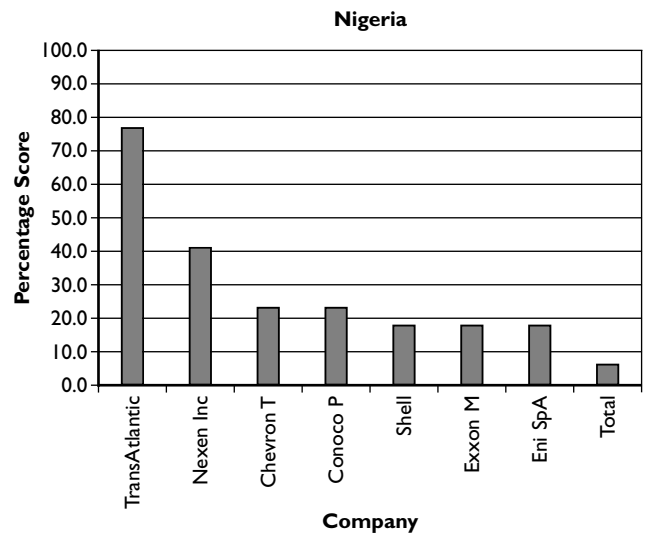
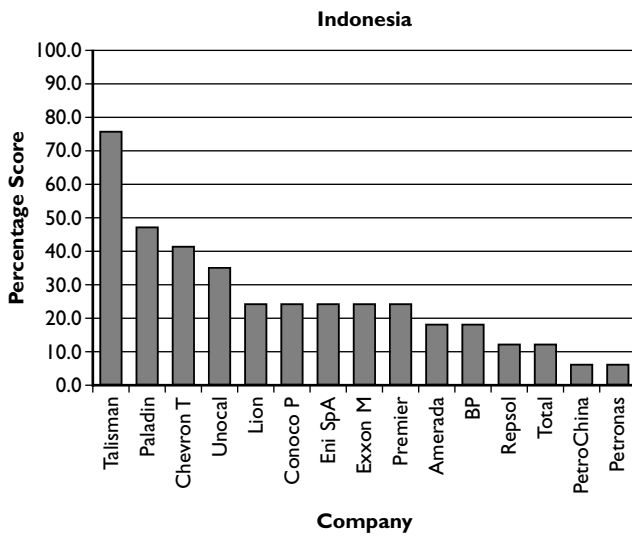
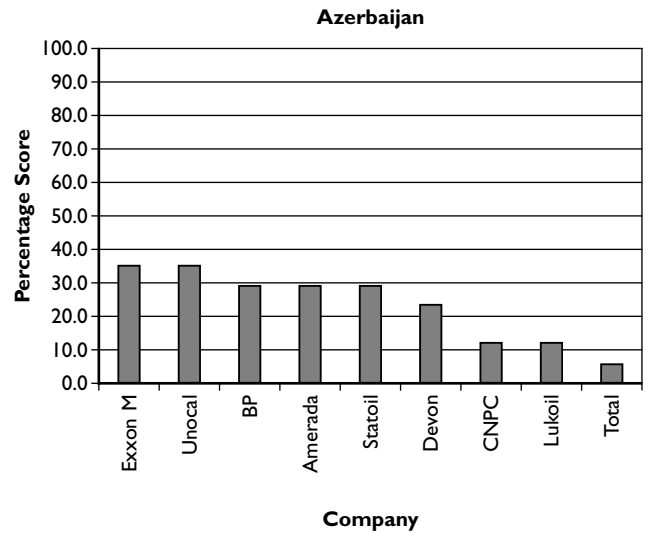
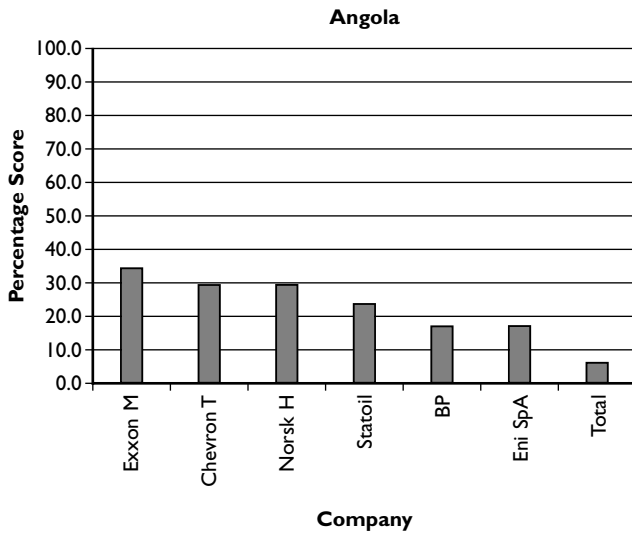
This section takes a look at company performance on supportive disclosure from an individual host country basis.

#### **Overall**

Supportive disclosure for each host country is much more widely available than revenue payments information, but levels of disclosure are still poor. None of the 52 companies surveyed returned zero scores, but only two companies scored above 50 per cent.

The pattern of scoring is quite similar in Angola, Azerbaijan and Venezuela, with the leaders just over or approaching the 40 per cent mark, followed by a steady decline to the laggards. In all countries except Timor Leste, there was variation in performance within each country. This suggests there is space for improvement for companies operating in these countries.

In terms of the highest individual scores, Canadian companies – TransAtlantic in Nigeria and Talisman in Indonesia – both scored 76 per cent. As discussed above, although Talisman only has operations in one of the countries covered in this report, it is disclosing comparable national information at a high level for many countries in which it operates, so the high score it achieved in Indonesia is likely to be replicated in other countries of operation.



Graph 5: Supportive disclosure by country (unweighted)

Of companies operating in a wide range of countries, Chevron Texaco (with operations in four countries) and ExxonMobil (in five countries) returned the consistently best results. But it should be noted that their average scores are low, Chevron Texaco at 34 per cent and ExxonMobil at 28 per cent. Total finished last in each of the countries where it operates, with the exception of Indonesia. Other companies with very low scores, two or less out of a possible 17, include Repsol, PetroChina and Petronas in Indonesia; CNPC and Shell in Venezuela; CNPC and Lukoil in Azerbaijan.

The six companies operating in four or more countries (BP, Chevron Texaco, Conoco Phillips, Eni SpA, ExxonMobil and Total) did not demonstrate great variation in disclosure between their countries of operation (ie, no more than a three-point separation out of a possible 17 points). This suggests that performance in this category has more to do with company practice and home government regulations than the limitations imposed by the contexts in which they operate.

### **Angola**

ExxonMobil on 35 per cent, and Chevron Texaco on 29 per cent, lead the way with Total on 6 per cent bringing up the rear. Even the scores of the leaders are quite low, and for the most part, reporting takes place on a geographic rather than country-specific basis. Disclosure of information on a national basis tends to occur in narrative-style discussions of operations in the country. For the sake of clarity and accessibility of information, information about production and reserves and company financials should be presented in summary tabular form (for example using a reporting template like the one presented as Appendix 5).

### **Azerbaijan**

The scoring in Azerbaijan follows a similar pattern to the Angolan results. ExxonMobil again leads, this time tied with Unocal at 35 per cent. BP, Amerada Hess and Statoil follow closely at 29 per cent. CNPC, Lukoil and Total (with the lowest score), finish at the bottom.

Again, the scores are low because most reporting is by geographic segment. The amount of country-specific information that is provided seems to be linked to the importance of the country as part of the company's overall international operations. While this is perhaps understandable from a company perspective, from the point of view of a local citizen, particularly one with an interest in promoting transparency in Azerbaijan, a lack of information about the scale of a company's operations makes understanding the relative impact of its revenue contributions on the country more difficult.

### **Indonesia**

Two of the top three scores were achieved in Indonesia. Talisman's strong performance has been discussed already, but the next two highest scores are still slightly above the results in other countries. Paladin scored 47 per cent and Chevron Texaco 41 per cent. Only TransAtlantic in Nigeria had a better result. Paladin does not operate in any of the other countries surveyed, but Chevron Texaco achieved the same score for its Venezuelan operations.

The fact that PetroChina and Petronas finish at the bottom is not a surprise, given that they are consistently at the bottom in all three categories. The poor performance of Repsol and Total is a bit surprising for these European companies.

The results for top performers suggest other companies could do more to improve their supportive disclosures.

### **Nigeria**

TransAtlantic registered the highest score, at 76 per cent. Another Canadian company, Nexen, came second with 41 per cent. Total came last, and Shell, Eni and ExxonMobil finished just above the French company. TransAtlantic's performance reflects best practice here and it is the standard that other companies should follow<sup>35</sup> while working towards the gold standard of country-by-country disclosure.

### Timor Leste

Santos leads with 35 per cent, but is only two points removed from last-placed Woodside Petroleum, at 24 per cent. The three-company sample size is very small, and makes it difficult to analyse the results meaningfully. What should be noted is that both Santos and Conoco Phillips have operations in the Australia-Timor Leste joint petroleum development area. As a result, information on Timor Leste may be consolidated with the Australia information. This is a possibility for Santos, which divides its reporting into Australian and international segments, but Conoco Phillips reports information on a consolidated basis for all its international operations.<sup>36</sup> Similarly, Woodside reports information on a segment basis in its 2003 full financial report.<sup>37</sup> Regardless of where the Timor Leste information is consolidated, all of these companies should move towards reporting on a country-by-country basis.

### Venezuela

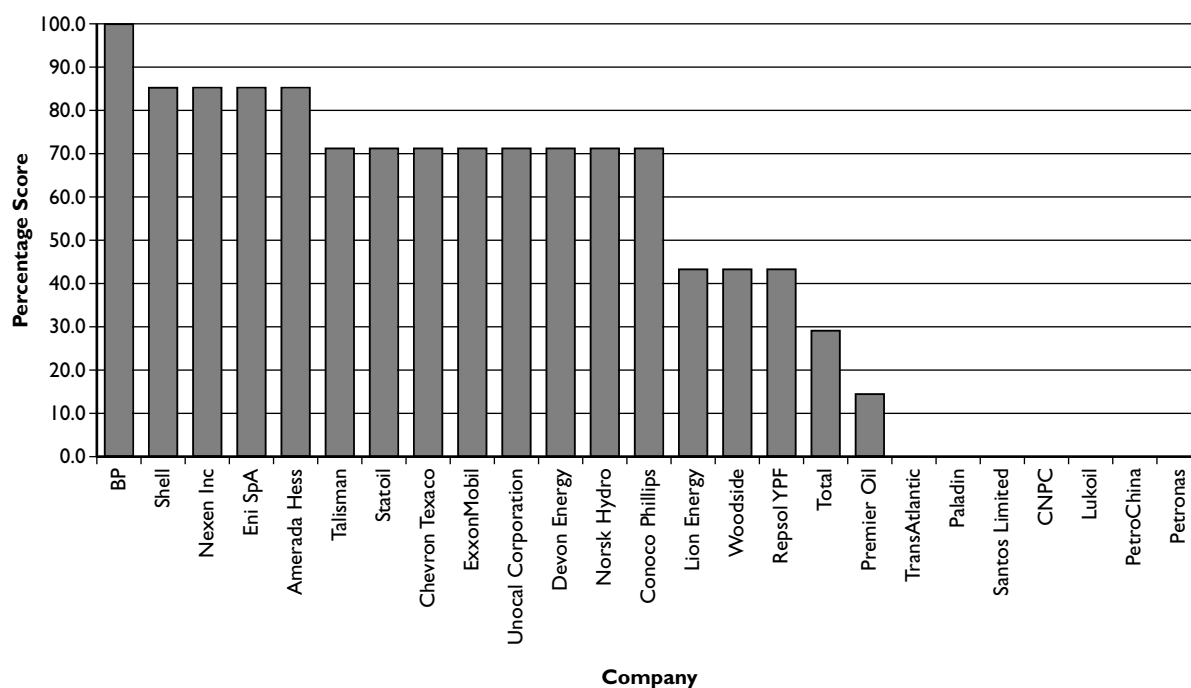
The pattern in Venezuela is in line with the general results across all the countries. This indicates that companies have adopted the same general approach to their supportive disclosure transparency, regardless of country of operation. However, the variation between Chevron (41 per cent) to CNPC (12 per cent) shows that there is room for improvement even within the existing context of local regulations.

## 3.4 Anti-corruption and whistle-blowing analysis

This section looks at company policies, management and performance on issues of anti-corruption and whistle-blowing. The purpose of this section is to establish to what extent companies have adopted a broader culture of transparency and governance. Indicators are illustrated below.

**Table 6: Anti-corruption and whistle-blowing indicators**

Number	Indicator	Possible Score
<b>Policy</b>		
31	Does the company have a global public policy covering corrupt activities?	1
32	Does the policy cover whistle-blowing?	1
33	Does the policy apply to the company's agents and contractors?	1
<b>Management systems</b>		
34	Does the company have procedures in place for censuring employees involved in corrupt activities?	1
35	Does the company have procedures in place for facilitating whistle-blowing and acting on information provided by whistle-blowers?	1
36	Does the company have procedures in place for protecting whistle-blowers?	1
<b>Performance</b>		
37	Does the company disclose if any of its employees were censured for corrupt activities?	1
<b>Section Score</b>		<b>7</b>



**Graph 6: Anti-corruption and whistle-blowing (unweighted)**

### Overall analysis

Overall results are good. Thirteen out of 25 companies scored above 70 per cent. However, despite a generally strong performance in the other two categories, seven companies finished with zero scores.

### Leaders

BP leads the way in this category, and is the only company that scored positively on all the indicators. The company has sound policy, management systems and performance in this area. It is only one of two companies (the other being Shell) that discloses the number of employees involved in, or cases of, corrupt activities that were censured. In addition to Shell, three other companies had positive scores on all but one indicator. Nexen, Eni SpA and Amerada only failed to disclose the number of employees censured for corrupt activities, but each of their policies and management systems received full marks. Shell fell short on one indicator, because the application of its policy to agents and contractors is not mandatory, but 'promoted'.<sup>38</sup>

These overall strong results illustrate that companies consider anti-corruption policies a priority and have put in place strong systems to govern internal conduct. In the wake of corporate scandals such as Enron, WorldCom and Tyco, and the subsequent passage of the Sarbanes-Oxley Act, measures to control corruption have grown in importance. With increased attention on the importance of transparency as a necessary adjunct to anti-corruption measures, it is hoped that revenue payments and supportive disclosure will follow the pattern of corporate anti-corruption measures.

As BP's performance illustrates, 100 per cent is achievable in this category, and indicates that others have room to improve.

### Poorer performers

Despite the encouraging results discussed above, seven companies scored zero in this category. CNPC and PetroChina, which finished 23rd and 25th respectively, are Chinese companies. Consistent with their poor

performance in other categories, transparency and anti-corruption initiatives do not appear to be a priority. It should be noted that PetroChina is a relative newcomer to the international market,<sup>39</sup> and still has some time to come into line with international standards. The same cannot be said of CNPC, which has been active internationally since 1993.<sup>40</sup> Chinese companies are a growing presence in resource-rich countries – a result of their growing demand to secure oil interests. This serves to illustrate how important it will be to engage them on transparency issues and to regulate them through securities requirements as they increasingly seek to raise capital on foreign stock exchanges.

Petronas, Malaysia's state-owned oil company, and Lukoil (based in Russia), follow a similar pattern to the Chinese companies. The results of TransAtlantic, Paladin and Santos are surprising, particularly in light of their strong performance in the supportive disclosure category, where none of them finish lower than fifth.

All companies with zero scores in this category should work towards the gold standard by implementing anti-corruption initiatives and publishing details of these measures on their websites.

## 4 Key issues and opportunities

This section aims to analyse issues brought to light from the above results. It also seeks to address issues raised by companies in feedback meetings.

### 4.1 Revenue payments and supportive disclosure

#### **Evidence demonstrates improvement is possible**

Some companies argue that they are doing all they can to disclose within host country environments constrained by limitations on transparency. However, the results show that there are quite large variations in performance within the same host country contexts, including some company scores that are far ahead of the others. This suggests there is more room for improvement than is currently being exploited and promoted by other companies. The results also suggest similar levels of supportive disclosure across different countries of operation for some companies. This suggests that company policy and systems affect practice and not just the contexts in which they operate. Therefore, significant focus should remain on the responsibilities and role of companies in improving transparency.

#### **Vital role of home governments in regulating companies**

Home governments have the power to regulate companies registered or raising capital within their jurisdiction. They could require companies to publish what they pay to the governments of each of the countries in which they operate. A sister report, *Beyond the Rhetoric – Measuring revenue transparency: home government requirements for disclosure in the oil and gas industries*, compares such regulation across ten home countries (Australia, Canada, France, Italy, the Netherlands, Norway, Russia, South Africa, the UK

and the USA.) It shows that only Canada has regulations that require disclosure of certain revenue payments on a country-by-country basis. The regulation is most comprehensive in relation to the information covered by the supportive disclosure category. Its securities regulations require mandatory disclosure in the aggregate and ‘by country’ of information relating to reserves (quantities and net present value), future development costs, oil and gas properties, exploration and development costs, production history and future estimates.<sup>41</sup> In the revenue payments category, the Canadian regulations only cover royalty payment disclosure but still, it is the only country to do so.

The three Canadian companies included in this study take first, second and fourth place for supportive disclosure, and first, second and joint eleventh place for revenue payments transparency. Overall, they rank first (Talisman), second (TransAtlantic Petroleum) and fifth (Nexen Inc). The strong results for Canadian companies indicate the role that home government regulations can play in increasing transparency in host countries. They demonstrate that at a global level, home government regulation is an efficient way to improve transparency. Regulation by a few home governments will have impact in all the host countries in which ‘their’ companies operate. This is particularly important in an industry that is dominated by a limited number of ‘majors’.

However, it should be noted that the Canadian law also includes relaxation clauses allowing some consolidated reporting. Nexen appears to have taken advantage of these to limit some reporting on its Nigerian operations, which accounts for its weaker performance. This highlights the difficulties created by such exemptions for those seeking to understand the revenues that their governments have received.

### **Golden opportunity for improving regulation for transparency**

Regulation of company reporting is largely brought about through accounting and security requirements. This makes the need for action especially timely. It coincides with the biggest reform in accounting standards for over 25 years. This is a unique opportunity for home governments – and companies – to put their own houses in order by supporting the inclusion of vital revenue payments transparency into financial regulations. These reformed standards will cover most of the world's companies for many years to come.

Specifically, the International Accounting Standards Board (IASB) is developing a more comprehensive standard for the minerals sector (IFRS6). A consultation process offers a vital opportunity for input, the discussion paper is due to be published in early 2006 and a draft standard in 2007. Across all accounting standards, a convergence project is underway to more closely align the standards contained within the International Financial Reporting Standard (IFRS) and the Generally Accepted Accounting Principles (GAAP).

These accounting reforms are prompting significant reviews in other financial regulations such as securities, including the disclosure powers currently diluted by various relaxation or exemption clauses. There are moves towards harmonisation of securities regulations at European level (under the auspices of the Financial Services Plan). These include EC Directive 2001/34/EC and amendments via the Prospectus Directive and the Transparency Directive. Such reforms offer significant points of influence as national governments prepare their own legislation in accordance with the requirements of these directives. Moreover, securities regulations incorporate, and can go beyond, accounting regulations in their disclosure requirements affecting the extractive industries.

Such reform and harmonisation offers companies an opportunity to contribute towards the creation of a strong global standard for transparency that will help

citizens and investors to secure the information they need and to ensure the level playing field that companies want.

### **Approaches to voluntary action by companies**

The variation in practices between companies within countries is not only due to the regulations placed on them by their home governments. Some have also demonstrated important voluntary leadership in improving transparency. Two main approaches have emerged.

#### **Piecemeal agreements with host governments**

Most examples of good practice are cases of specific disclosures negotiated with particular host governments. In Azerbaijan, BP disclosed the amount of profit oil paid to the Government but the company has not disclosed such information for any of the other host countries studied. In Nigeria, Shell attains the highest revenue payments score for performance in a host country but scores zero for Venezuela. In Angola, Chevron Texaco arranged a waiver of a confidentiality clause to publish a signature and social bonus but it has not disclosed any revenue payments in any of the other three countries included in the study.

These cases mark significant progress in raising the importance of the issue of transparency. However, because they are not replicated in the other countries in which these companies operate, they are limited in overall effect. Company performance tends to reflect their view of what is 'material', a view suggested in meetings with certain companies. This means that disclosure tends to be most comprehensive in countries where companies have significant interests (eg, Shell – Nigeria, BP – Azerbaijan). But what may be of less importance to a company in its global operations, may be vital to a particular country and its citizens. This suggests the need to move away from a piecemeal, ad hoc approach to one that is systematic and global.

### **Systematic reporting for all countries of operation**

Talisman takes a different approach. While its performance is to some extent a result of conforming to Canadian legislation (which requires disclosure of royalty payments by country) it goes further by publishing details of taxes and bonuses paid in all countries of operation. This information is gathered during the company's annual reporting process and condensed into a two-page table in its *Corporate Responsibility Report*. Talisman has implemented this method across all its countries of operation. To assist other countries in taking such an approach, a reporting template is presented as a practical tool (see Appendix 5).

### **Overcoming concerns about company reporting**

#### **Materiality and volume of reporting**

Companies generally apply a materiality test to determine how much information they should disclose about their local operations.<sup>42</sup> This includes a process of capturing all concerns that are represented in international media coverage, stakeholder dialogue processes and peer review. Generally, the more significant a country is to a company's operations, the greater the amount of information made available at group level. However, this approach ignores the fact that what may seem unimportant to companies may be of great import to other parties. For example, while some country operations may be very small from an international company's perspective, revenues derived from them may be considered significant to a local citizen. Therefore, determination of what is 'material' should include consideration of the needs of the citizens in countries where extraction is taking place.

During interviews, companies also expressed concern that reporting on a national basis would increase the volume of reporting to such a degree that documents would become too large and unwieldy to be useful and informative. However, as Talisman has demonstrated, the additional use of tables in a simplified format would assist in presenting key information while

limiting the volume of reporting. Not only would this make the most pertinent information readily available, it would also provide companies with a means of clarifying what information needs cannot be addressed. For example, if a company has a development-only interest in a country, instead of omitting that country from its disclosure, it could present it in a chart, disclosing available information such as exploration and development costs, and where information does not exist, such as production volumes, simply indicate this with an 'n/a'.<sup>43</sup> This would be simpler and more effective than narrative-style disclosure. As discussed, the reporting template (Appendix 5) provides a working example for companies to refer to and utilise.

This approach would vastly improve transparency, clarity and brevity of reporting, while allowing companies to provide a greater amount of information. In many cases, a large amount of information is already being put into the public domain through operating reviews and other such documents. This approach simply calls on companies to condense the information into a simpler, more effective format, and could be used to provide information on revenue payments as well as supportive disclosure.

#### **Cost of disclosure**

Some companies have suggested that reporting on a country level is cost-prohibitive. However, companies already receive this information from their national business units in a disaggregated format. The common approach taken by large companies is to lump countries into geographic segments and then report the information aggregated by region. Since the information is already being gathered on a country level and then submitted to group headquarters for consolidation, to leave it in disaggregated format would not represent an increase in reporting costs. The expense is more likely to come from increased auditors' fees. However, the benefits to be derived from increased transparency, a more stable operating environment and an improved corporate reputation, are likely to outweigh the increased costs of audit.

### **Risk of publishing information subject to change**

The point has been made that disclosing information such as production and reserves volumes exposes a company to repercussions if the figures should later change. However, annual reports contain comprehensive forward-looking statements that expressly address this concern.<sup>44</sup> These statements are very detailed and stipulate that certain information is based on expectations, projections and estimates. The information they relate to is not guaranteed and is subject to change on the basis of a variety of risks. The comprehensive cautions contained in the forward-looking statements cover companies against the risk of publicly-disclosed information changing. This is effective protection against potential fallout and so companies can disclose production and reserve volumes based on the caveats contained in the forward-looking statements.

## **4.2 Anti-corruption and whistle-blowing**

The issue of corporate corruption gained prominence after high-profile scandals such as Enron and WorldCom and the subsequent passage of the Sarbanes-Oxley Act. The fact that half the companies passed with good scores in the anti-corruption and

whistle-blowing category is perhaps a result of focused attention on these issues. While general performance in this category is good, there are a number of laggards who need to reconsider their approach to dealing with anti-corruption issues.

## **4.3 Use of the ‘measuring transparency’ framework**

The indicators contained in this measuring transparency framework effectively set a standard for the way that extractive companies should operate to support revenue transparency. The framework provides a solid base for the integration of such standards into mainstream financial regulations as well as individual company policies and systems.

### **Use in tracking and comparing company practice**

The findings from this study will act as a baseline for company performance. Repeating the assessment annually in future years will allow company progress to be tracked over time. It is intended as a tool for companies, civil society and investors alike, and future roll-out should expand to include other host countries and more companies (especially state owned).

# 5 Conclusions and recommendations

## 5.1 Home government regulation is a key driver of disclosure performance

Canada's requirement that its companies disclose royalty payments on a country-by-country basis is a key reason for strong performance by Canadian companies. This result demonstrates that it is possible for home governments to play a greater role in supporting transparency. Moreover such an approach, if harmonised with other governments, would deliver a more level playing field for companies and relieve them of the burden (and risk) of country-by-country negotiations.

In a year that both governments and civil society groups around the world have pledged to 'Make Poverty History', action by governments speaks louder than words. The UK Government, as both president of the EU and host to the G8 summit this year, could take advantage of these roles and call on EU and G8 governments to set a global standard for disclosure in the sector. Companies, investors and civil society also have a role to play in supporting such a standard.

### Recommendations

- **Companies should publish what they pay to governments wherever they operate on a country-by-country basis.**
- **Home governments should commit to developing a global standard for disclosure in the extractive industries.** The UK Government should take advantage of its role as host of the G8 summit in July this year to formally incorporate this call into the G8 Action Plan for 'Fighting Corruption and Improving Transparency'.
- **Home governments should remove various exemption and relaxation clauses that curtail the power of existing financial regulations and extend the requirement for disclosure of royalties to other key revenue streams (such as production entitlements, bonuses and fees).**

## 5.2 Reforms in accounting and securities standards offer a golden opportunity

As this report (and its sister report, *Beyond the Rhetoric – Measuring revenue transparency: home government requirements for disclosure in the oil and gas industries*) shows, home governments have a unique opportunity to take advantage of current reforms to mainstream transparency requirements into accounting and securities regulations.

### Recommendations

- **Companies should lobby respective governments to mainstream disclosure requirements into accounting and listing standards.**
- **Home governments should work with accounting and securities regulators to ensure that country-level disclosure requirements for the extractive sector are built into corporate reporting standards.** The standards presented in this report offer a practical starting point and the current 'space' for regulatory reform offers a unique opportunity.

### 5.3 The best voluntary approaches are global and systematic

Findings indicate that there are two variations of the voluntary approach currently being used by companies:

- first, the country-focused approach, by which companies negotiate with host governments; this may be done unilaterally or through companies working together with host governments
- secondly, systematic disclosure of payments for every country of operation.

While the first has advanced the cause of transparency, it remains a slow and ad hoc approach. The second approach proves that it is possible to disclose across all countries of operation, even in challenging contexts where few others are doing so. This latter approach represents best practice for voluntary action in this sector.

#### Recommendations

- **Companies should adopt a more systematic approach** to publishing payments made to every country in which they operate, as demonstrated by Talisman.
- **Companies should publish a clear policy on transparency**, including proof of senior management responsibility for the issue. This will help investors and civil society better judge performance and enable access to key individuals who can represent the company on transparency concerns.

### 5.4 Companies can do more in individual countries

Variations in company performance within the same host country indicate that there is more room for improvement than is currently being demonstrated. There are also indications that some companies have similar levels of supportive disclosure across different

countries of operation. This suggests that company policy and systems can affect practice on the ground, and are not always hostage to individual country contexts.

#### Recommendation

- **Companies should work collaboratively with other companies, civil society and host governments** to build disclosure agreements into their contracts. This means making better use of the ‘space’ to show leadership in individual countries.
- **Companies should actively engage** to support progress where host governments are willing, particularly through the EITI. Companies should do more to promote the EITI within their industry.

### 5.5 Concerns over company reporting can be overcome

The research process has revealed that companies tend to put a large amount of information in the public domain in a format that is often unwieldy, heavy on narrative, and unnecessarily complicated. Clear presentation of information will be critical to users of that information – ultimately, local citizens wishing to access relevant information on the payments their government has received.

Findings have shown that it is possible for companies to present key information on revenue payments in a simple, comprehensible manner, as one company has demonstrated. A suggested template is included in Appendix 5 of this report for companies to use for reference.

#### Recommendations

- **Companies could develop a simple reporting template** (along the lines of that suggested in this report) in order to present key revenue payments in an easy and comprehensible manner.

## 5.6 More attention needed on policies for anti-corruption and whistle-blowing

A true demonstration of commitment to transparency must also include company commitments to policies that cover anti-corruption and whistle-blowing. While most companies demonstrate good policies here, two EITI participants have lacklustre performance (Total and Repsol) and seven other companies scored zero. Without these fundamental policies in place it is difficult to see how companies can genuinely promote transparency and good governance of revenues.

### Recommendation

- **Companies must improve anti-corruption and whistle-blowing systems** where performance is poor, and publish progress on websites.

## 5.7 The measuring transparency framework offers a gold standard for companies

The indicators used to benchmark company performance in this study aim to provide standards for disclosure in the industry. It is only through reaching this higher standard that true transparency can be achieved. The framework will be a useful tool for companies, investors, and civil society to measure progress over time.

### Recommendations

- **Companies should use the standards provided in this report** to measure and publicise progress on transparency issues against competitors on an annual basis.
- **Civil society and investors should use the framework** to assess performance of companies over time; investors and rating agencies should incorporate the frameworks into existing risk assessment procedures for companies.

# Appendix I

## Company responses to study

Company	Provided Detailed Response	Declined to Participate	No Definitive Response
Amerada Hess	✓		
BP	✓		
Chevron Texaco	✓		
CNPC			✓
Conoco Phillips			✓
Devon Energy		✓	
Eni SpA			✓
ExxonMobil	✓		
Lion Energy			✓
Lukoil			✓
Nexen Inc		✓	
Norsk Hydro	✓		
Paladin			✓
PetroChina			✓
Petronas			✓
Premier Oil	✓		
Repsol YPF	✓		
Shell	✓		
Santos			✓
Statoil*			✓
Talisman Energy	✓		
Total	✓		
TransAtlantic		✓	
Unocal Corporation			✓
Woodside Petroleum			✓

\*Statoil made efforts to provide feedback, but scheduling constraints prevented a meeting

# Appendix 2

## Framework of indicators

### Category A: revenue payments transparency

Number	Indicator	Possible Score
<b>Policy</b>		
1	Has the company made a public declaration committing itself to the transparency of revenue payments in all countries of operation?	1
Has the company made a public declaration committing itself to:		
2	– corporate reporting on a national basis?	1
3	– the breakdown of revenue payments into relevant categories (as illustrated in questions 11–15	1
4	– the disclosure of material contracts for all host countries?	1
5	– the disclosure of material payments in cash or in kind to parties related to contracts?	1
6	Is the company a GRI Organisational Stakeholder, and/or does the company have an active policy on, and involvement with, EITI implementation?	1
<b>Management Systems</b>		
7	Does the company publicly provide evidence of the assignment of strategic responsibility for transparency of revenue payments at the board or senior management level?	1
8	Does the company publicly provide evidence of engagement with stakeholders on issues of revenue transparency?	1
9	Do the company's contracts in Country X have a confidentiality clause covering disclosure of revenue payment information?*	1
<b>Performance</b>		
10	Does the company disclose payments (in cash or in kind) to separate host governments or host government's entities, and are at least 50% of those payments broken down by country?	2
11	Does the company disclose payments (in cash or in kind) to host governments or host government's entities, and are at least 99% of those payments broken down by country?	2
12	Are the recipients broken down by levels of government, parastatals, and other related companies	1

\*For Indicator 9, no = 1 and yes = 0

*continued overleaf*

**Category A: revenue payments transparency** *continued*

Number	Indicator	Possible Score
<b>Performance</b> <i>continued</i>		
Are the payments for operations in Country X broken down into:		
13	– production entitlements?	2
14	– royalty payments?	2
15	– bonuses and fees (including licensing fees)?	2
16	– taxes?	2
17	Does the company provide revenue payments information locally, ie, through local media or locally published corporate materials?	1
<b>Section Score</b>		23

**Category B: supportive disclosure**

Number	Indicator	Possible Score
<b>Performance</b>		
<b>General information</b>		
18	Does the company publicly disclose the names of its significant or material subsidiaries and their countries of incorporation?	1
Does the company publicly disclose for its operations in Country X:		
19	– the names of all of its subsidiaries operating in the country?	1
20	– names and production of key properties?	1
21	– contract regimes used (ie, production sharing, concession system, joint venture company, risk services) for all key properties?	1
<b>Production and reserves</b>		
Does the company publicly disclose for its operations in Country X:		
22	– production volumes?	1
23	– an estimate of future production volumes?	1
24	– a measure of reserves?	1
25	– a standardised measure of the present value of reserves?	1

*continued opposite*

**Category B: supportive disclosure** *continued*

Number	Indicator	Possible Score
<b>Performance</b> <i>continued</i>		
<b>Company financials</b>		
Does the company publicly disclose for its operations in Country X:		
26	– revenue?	2
27	– production costs?	2
28	– development and exploration costs or capital expenditures?	2
29	– profit before tax?	2
30	Does the company provide financial information in a locally available format, ie, through local media or locally published corporate materials?	1
<b>Section Score</b>		17

**Category C: anti-corruption and whistle-blowing**

Number	Indicator	Possible Score
<b>Policy</b>		
31	Does the company have a global public policy covering corrupt activities?	1
32	Does the policy cover whistle-blowing?	1
33	Does the policy apply to the company's agents and contractors?	1
<b>Management systems</b>		
34	Does the company have procedures in place for censuring employees involved in corrupt activities?	1
35	Does the company have procedures in place for facilitating whistle-blowing and acting on information provided by whistle-blowers?	1
36	Does the company have procedures in place for protecting whistle-blowers?	1
<b>Performance</b>		
37	Does the company disclose if any of its employees were censured for corrupt activities?	1
<b>Section Score</b>		7
<b>Total Score</b>		47

# Appendix 3

## Transparency initiatives and performance measures reviewed

Name	Organisation responsible
<b>1. Extractive industry transparency</b>	
a Extractive Industries Transparency Initiative (EITI)	UK Department for International Development
b OECD project on revenue transparency in the Democratic Republic of Congo	Organisation for Economic Co-operation and Development
c Promoting transparency in the African oil sector	Centre for Strategic and International Studies (US)
d Proposed Economic Assistance Conditionality Act	US House of Representatives
e Extractive Industries Review	World Bank Group
<b>2. General transparency</b>	
a Global Reporting Initiative	Coalition for Environmentally Responsible Awareness and UN Environment Program
b Global Transparency Initiative	NGO consortium
c BankTrack Report on Equator Principles	NGO consortium
d IMF Code of Good Practices and Fiscal Transparency	International Monetary Fund
e OECD Guidelines for Multinational Enterprises	Organisation for Economic Co-operation and Development
f Proposed IAS Accounting Standard	Association for Accountancy and Business Affairs
<b>3. Company benchmarking tools</b>	
a FTSE4Good Indices	FTSE
b SRI Biodiversity and Extractives Industry Benchmarking	ISIS, Insight Investment
c Dow Jones Sustainability Indexes	Dow Jones
d S&P Corporate Transparency and Disclosure Study	Standard and Poor's
<b>4. Country initiatives and benchmarks</b>	
a Africa Governance Report	UN Economic Commission for Africa (UNECA)
b Bribe Payers Index	Transparency International
c Corruption Perceptions Index	Transparency International
d Country Assessment in Accountability and Transparency	United Nations Development Program
e Democracy Index	Institute for Democracy in South Africa
f Global Integrity Report	Centre for Public Integrity, Washington DC
g Opacity Index	PricewaterhouseCoopers
h Worldwide Governance Indicators Dataset	World Bank

# Appendix 4

## Definition document

### Category A: revenue payments transparency

Number	Indicator	Possible Score	Comment/Definition
<b>Policy</b>			
1	Has the company made a public declaration committing itself to the transparency of revenue payments in all countries of operation?	1	“Public declaration” requires that any expression of commitment appear in a Corporate Responsibility Report, Annual Report, description of company policy, or any other similar document available on the company’s website. Half a point was awarded on this indicator if the company made a public declaration committing to transparency of revenue payments in all EITI-implementing countries.
	Has the company made a public declaration committing itself to:		“Public declaration” requires that any expression of commitment appear in a Corporate Responsibility Report, Annual Report, description of company policy, or any other similar document available on the company’s website.
2	– corporate reporting on a national basis?	1	“Corporate reporting” refers to information typically found in a company’s financial statements and business review. It includes elements such as revenue, production costs, development and exploration costs, profits, productions volumes and reserves information.
3	– the breakdown of revenue payments into relevant categories (as illustrated in Q13–Q16 below)?	1	Scoring positively does not require that a company commit to the exact breakdown given in Q13–Q16 below, but that it has made a commitment to a general breakdown of revenue payments by type and by country.
4	– the disclosure of material contracts for all host countries?	1	The standard of materiality here is what a reasonable shareholder would expect to be told about the company’s operations. If a contract is material, non-disclosure would be a serious omission and would have an impact on the company’s balance sheet. However, if the policy seeks to exclude any types of contract, a negative score will be awarded.
5	– the disclosure of material payments in cash or in kind to parties related to contracts?	1	“Material” is judged by what is material to the contract, or to either of the contracting parties. Therefore, determination of whether a small payment would qualify as material will depend on the value of the contract, or on the fiscal size of either of the contracting parties.
6	Is the company a GRI Organisational Stakeholder, and/or does the company have an active policy on, and involvement with, EITI implementation?	1	This indicator is measured by consulting the GRI and EITI websites. The GRI website provides a list of Organisational Stakeholders. The EITI website provides a list of organisations that have an active policy on, and involvement with, EITI implementation.
<b>Management systems</b>			
7	Does the company publicly provide evidence of the assignment of strategic responsibility for transparency of revenue payments at board or senior management level?	1	“Publicly provide” means that the information will have to appear in a Corporate Report (or similar document), or on the company website. Scoring positively requires that a specific individual be named as being responsible for revenue payments transparency.
8	Does the company publicly provide evidence of engagement with stakeholders on issues of revenue transparency?	1	“Publicly provide” means that the information will have to appear in a Corporate Report (or similar document), or on the company website. “Evidence of engagement” will include qualitative statements about receiving feedback through meetings, phone surveys, questionnaires, correspondence, etc. “Stakeholders” includes government and civil society.

continued overleaf

**Category A: revenue payments transparency** *continued*

Number	Indicator	Possible Score	Comment/Definition
<b>Management systems</b> <i>continued</i>			
9	Do the company's contracts in Country X have a confidentiality clause covering disclosure of revenue payment information?*	1	If the company discloses any details of revenue payments for Country X under Q12–Q16, we assume the contracts do NOT have a confidentiality clause. If the company does not disclose revenue payment information in those indicators, then the burden of proof will be on the company to prove that their contracts do not contain confidentiality clauses. One way companies could prove their contracts do not contain confidentiality clauses would be to provide information on revenue payments. This information will be obtained through meetings, telephone conversations or correspondence with company representatives.
<b>Performance</b>			
10	Does the company disclose payments (in cash or in kind) to separate host governments or host government's entities, and are at least 50% of those payments broken down by country?	2	This indicator is measured at the global level of a company's operations. To score positively, 50% of total payments made to host governments or their entities must be provided. To determine if the 50% threshold is being met, companies will have to include a total of their payments, or an "Other" category that will allow a total to be calculated. In the absence of both of these, a negative result will be recorded.
11	Does the company disclose payments (in cash or in kind) to host governments or host government's entities, and are at least 99% of those payments broken down by country?	2	This indicator is measured at the global level of a company's operations. To score positively, 99% of total payments made to host governments or their entities must be provided. To determine if the 99% threshold is being met, companies will have to include a total of their payments, or an "Other" category that will allow a total to be calculated. In the absence of both of these, a negative result will be recorded.
12	Are the recipients broken down by levels of government, parastatals, and other related companies?	1	In the absence of a country-specific definition, the term "levels of government" will be considered to have three components: 1) national; 2) regional; 3) local, as far as a country has these levels. To receive a positive score, a company must name each level of government receiving payments.
Are the payments for operations in Country X broken down into:			
13	– production entitlements?	2	Scoring is in line with the template provided below.
14	– royalty payments?	2	Scoring is in line with the template provided below.
15	– bonuses and fees (including licensing fees)?	2	Scoring is in line with the template provided below.
16	– taxes?	2	Scoring is in line with the template provided below.
17	Does the company provide revenue payments information locally, ie, through local media or locally published corporate materials?	1	"Revenue payments information" refers to disclosure of production entitlements, royalty payments, bonuses and fees and taxes.
<b>Section Score</b>		23	

**Scoring template for Questions 13–16 and 26–29**

	Not Published	1	"Not Published" refers to information made available to the public through government databases or registries pursuant to local law.
	Published	2	"Published" refers to information contained in an annual report, CSR Report, or similar documents available on the company's website.

\*For Indicator 9, no = 1 and yes = 0

*continued opposite*

**Category B: supportive disclosure**

Number	Indicator	Possible Score	Comment/Definition
<b>Performance</b>			
<b>General information</b>			
18	Does the company publicly disclose the names of its significant or material subsidiaries and their countries of incorporation?	1	To score positively on this indicator, a company must disclose what standard it uses to exclude immaterial or non-significant subsidiaries. The standard used is not considered, and a positive score is awarded if any standard is disclosed. "Subsidiaries" are separate corporate entities in which the parent company controls more than 50% of the voting shares.
Does the company publicly disclose for its operations in Country X:			"Publicly disclose" means that the information is available in an annual report or similar document which can be obtained from the company's website.
19	– the names of all of its subsidiaries operating in the country?	1	"Subsidiaries" are separate corporate entities in which the parent company controls more than 50% of the voting shares.
20	– names and production of key properties?	1	"Key". To qualify as "key", the sum of the properties listed must include at least 75% of total production in the country. To score positively, a figure for total production in the country must be disclosed to allow calculation of the 75% standard. "Properties" refers to areas where oil or gas is being produced. These may also be referred to as Cash Producing Units.
21	– contract regimes used (ie, production sharing, concession system, joint venture company, risk services) for all key properties?	1	"Contract regimes" are not confined to the types enumerated in the indicator. A positive score will be awarded for specification of the type of contract, not for use of certain terminology. "Key". To qualify as "key", the sum of the properties listed must include at least 75% of total production in the country. To score positively, a figure for total production in the country must be disclosed to allow calculation of the 75% standard.
<b>Production and reserves</b>			
Does the company publicly disclose for its operations in Country X:			"Publicly disclose" means that the information is available in an annual report or similar document which can be obtained from the company's website.
22	– production volumes?	1	A total figure for the country must be given or be possible to determine. Either a measure of total volume produced or daily production is acceptable.
23	– an estimate of future production volumes?	1	A total figure for the country must be given or be possible to determine.
24	– a measure of reserves?	1	A total figure for the country must be given or be possible to determine.
25	– a standardised measure of the present value of reserves?	1	A total figure for the country must be given or be possible to determine.
<b>Company financials</b>			
Does the company publicly disclose for its operations in Country X:			"Publicly disclose" means that the information is available in an annual report or similar document which can be obtained from the company's website or from a local registry.
26	– revenue?	2	Scoring is in line with the template provided on page 46.
27	– production costs?	2	Scoring is in line with the template provided on page 46.
28	– development and exploration costs or capital expenditures?	2	Scoring is in line with the template provided on page 46.
29	– profit before tax?	2	Scoring is in line with the template provided on page 46.
30	Does the company provide financial information in a locally available format, ie, through local media or locally published corporate materials?	1	"Financial information" refers to information typically found in a company's financial statements and business review. It includes elements such as revenue, production costs, development and exploration costs, profits and productions volumes.
<b>Section Score</b>		17	

continued overleaf

### Category C: anti-corruption and whistle-blowing

Number	Indicator	Possible Score	Comment/Definition
<b>Policy</b>			
31	Does the company have a global public policy covering corrupt activities?	1	“Global” means that the policy applies to all subsidiaries of the company examined. “Public” means that the information appears in a Corporate Report (or equivalent), Code of Conduct (or equivalent) or a description of company policy. This material must be available on the company website. “Corrupt activities” includes fraudulent activities and bribery of government officials.
32	Does the policy cover whistle-blowing?	1	“Whistle-blowing” refers to employees reporting practices in violation of the policy tested for by Q31, if one exists.
33	Does the policy apply to the company’s agents and contractors?	1	“Agents” refers to parties engaged to represent the company in its local operations. This term does not include joint venturers. “Contractors” refers to parties who directly contract with the company, except for joint venturers. Third parties, such as suppliers, are not considered contractors.
<b>Management systems</b>			
34	Does the company have procedures in place for censuring employees involved in corrupt activities?	1	“Censuring” includes any form of disciplinary action. “Corrupt activities” refers to activities covered by the company-specific global policy tested for by Q.31.
35	Does the company have procedures in place for facilitating whistle-blowing and acting on information provided by whistle-blowers?	1	“Procedures” includes, but is not limited to, mechanisms for reporting violations such as telephone complaint lines, written reports, the existence of an internal Ombudsman (or equivalent). A positive score will be awarded if a company has any of the mechanisms enumerated above in place.
36	Does the company have procedures in place for protecting whistle-blowers?	1	“Procedures” includes, but is not limited to, measures such as guarantees of anonymity, guarantees of non-retaliation for reporting, guarantees of non-dismissal or against constructive dismissal for acts of whistle-blowing, or the existence of an internal Ombudsman (or equivalent). A positive score will be awarded if a company has any of the measures enumerated above in place.
<b>Performance</b>			
37	Does the company disclose if any of its employees were censured for corrupt activities?	1	“Censured” includes any form of disciplinary action.
<b>Section Score</b>		<b>7</b>	
<b>Total Score</b>		<b>47</b>	

# Appendix 5

## Reporting template

### Revenue Payments and Supportive Disclosure (millions of dollars unless otherwise stated)

Country	Production Entitlements <sup>1</sup>	Royalty Payments <sup>1</sup>	Bonuses and Fees <sup>1</sup>	Taxes <sup>1</sup>	Total Payments <sup>1</sup>	Production (mboe/d) <sup>2</sup>	Future Production Estimate (mboe/d) <sup>2</sup>	Reserves Volumes (mmboe) <sup>3</sup>	Present Value of Reserves	Revenue	Production Costs	Exploration and Development Costs	Capital Expenditure	Pre-tax Profit
<b>Country X</b>														
National														
Regional														
Local														
Total														
<b>Country Y</b>														
National														
Regional														
Local														
Total														
<b>Country Z</b>														
National														
Regional														
Local														
Total														
<b>Other<sup>4</sup></b>														
<b>Total company</b>														

<sup>1</sup> All payments to governments should be broken down by levels of government as shown, where applicable

<sup>2</sup> mboe/d = thousand barrels of oil equivalent per day

<sup>3</sup> mmboe = million barrels of oil equivalent

<sup>4</sup> The Other category should be used to disclose small-scale operations so that a total for the company in each column can be calculated

# Appendix 6

## Reporting checklist

### Category A: revenue payments transparency

Number	Indicator	Possible Score	Yes/No	Actual Score	Source
<b>Policy</b>					
1	Has the company made a public declaration committing itself to the transparency of revenue payments in all countries of operation?	1			
Has the company made a public declaration committing itself to:					
2	– corporate reporting on a national basis?	1			
3	– the breakdown of revenue payments into relevant categories (production entitlements, royalties, bonuses and fees, taxes)?	1			
4	– the disclosure of material contracts for all host countries?	1			
5	– the disclosure of material payments in cash or in kind to parties related to contracts?	1			
6	Is the company a GRI Organisational Stakeholder, and/or does the company have an active policy on, and involvement with, EITI implementation?	1			
<b>Management systems</b>					
7	Does the company publicly provide evidence of the assignment of strategic responsibility for transparency of revenue payments at board or senior management level?	1			
8	Does the company publicly provide evidence of engagement with stakeholders on issues of revenue transparency?	1			
9	Do the company's contracts in Country X have a confidentiality clause covering disclosure of revenue payment information?*	1			
<b>Performance</b>					
10	Does the company provide revenue payments information locally, ie, through local media or locally published corporate materials?	1			
<b>Section Score</b>		10			

\*For Indicator 9, no = 1 and yes = 0

*continued opposite*

**Category B: supportive disclosure**

Number	Indicator	Possible Score	Yes/No	Actual Score	Source
<b>Performance</b>					
<b>General information</b>					
11	Does the company publicly disclose the names of its significant or material subsidiaries and their countries of incorporation?	1			
Does the company publicly disclose for its operations in Country X:					
12	– the names of all of its subsidiaries operating in the country?	1			
13	– names and production of key properties?	1			
14	– contract regimes used (ie, production sharing, concession system, joint venture company, risk services) for all key properties?	1			
15	Does the company provide financial information in a locally available format, ie, through local media or locally published corporate materials?	1			
<b>Section Score</b>		5			

**Category C: anti-corruption and whistle-blowing**

Number	Indicator	Possible Score	Yes/No	Actual Score	Source
<b>Policy</b>					
16	Does the company have a global public policy covering corrupt activities?	1			
17	Does the policy cover whistle-blowing?	1			
18	Does the policy apply to the company's agents and contractors?	1			
<b>Management systems</b>					
19	Does the company have procedures in place for censuring employees involved in corrupt activities?	1			
20	Does the company have procedures in place for facilitating whistle-blowing and acting on information provided by whistle-blowers?	1			
21	Does the company have procedures in place for protecting whistle-blowers?	1			
<b>Performance</b>					
22	Does the company disclose if any of its employees were censured for corrupt activities?	1			
<b>Section Score</b>		7			
<b>Total Score</b>		22			

# Endnotes

- 1 See *Lifting the Resource Curse: Extractive Industries, Children and Governance* (2002) Save the Children UK.
- 2 [www.eitransparency.org/participants.htm](http://www.eitransparency.org/participants.htm), consulted on 13 February, 2005.
- 3 Although PetroChina is a 90 per cent-owned subsidiary of CNPC, it is listed separately on the New York and Hong Kong stock exchanges. As it is a separate legal entity, PetroChina was treated as distinct from CNPC in this study.
- 4 See *Lifting the Resource Curse: Extractive Industries, Children and Governance* (2002), *Op Cit.*
- 5 See Publish What You Pay website at [www.publishwhatyoupay.org](http://www.publishwhatyoupay.org)
- 6 J Cady, 'Does SDDS Subscription Reduce Borrowing Costs for Emerging Market Economies?', IMF Working Paper, April 2004. *The Opacity Index*, PricewaterhouseCoopers, January 2001.
- 7 See [www.savethechildren.org.uk/measuringtransparency](http://www.savethechildren.org.uk/measuringtransparency)
- 8 Of the original 33 companies, the following six have been excluded because their operations have not reached the producing stage: Cue Energy, Marathon Oil Corporation, Petro-Canada, Roc Oil Company, Canadian Natural Resources and Dana Petroleum. The Chinese National Offshore Oil Corporation's (CNOOC) production operations in Indonesia could not be studied because none of the material available on its website was more recent than 2003. This removed it from the accepted disclosure period. However, it should be noted that the level of disclosure on the website was quite low and as no annual report was made available, CNOOC is likely to have scored very poorly. As much information as was available on companies with exploration and development operations was gathered during the research phase. For information on companies with exploration-only interests and the results of the research into companies at the development stage visit [www.savethechildren.org.uk/measuringtransparency](http://www.savethechildren.org.uk/measuringtransparency).
- 9 For this reason, Medco Energi in Indonesia was excluded from the main group of companies studied.
- 10 For a full list of participants, including all those consulted during the research and data verification process, visit [www.savethechildren.org.uk/measuringtransparency](http://www.savethechildren.org.uk/measuringtransparency).
- 11 Definitions for each indicator are available in Appendix 4.
- 12 See, for example, The Foreign Corrupt Practices Act of America.
- 13 See Appendix 1 for a breakdown of company responses.
- 14 See [www.savethechildren.org.uk/measuringtransparency](http://www.savethechildren.org.uk/measuringtransparency)
- 15 [www.eitransparency.org/participants.htm](http://www.eitransparency.org/participants.htm), consulted on February 13, 2005.
- 16 Although PetroChina is a 90 per cent owned subsidiary of CNPC, it is listed separately on the New York and Hong Kong stock exchanges. As it is a separate legal entity, PetroChina was treated as distinct from CNPC in this study.
- 17 Please refer to our sister report on home government for details, [www.savethechildren.org.uk/measuringtransparency](http://www.savethechildren.org.uk/measuringtransparency)
- 18 Consultation with Talisman Energy, February 21, 2005.
- 19 Talisman Energy Inc. 2003 Corporate Responsibility Report, pp. 36–38. Available on [www.talisman-energy.com](http://www.talisman-energy.com)
- 20 Statoil Annual report and accounts pp. 22–23. Available on [www.statoil.com](http://www.statoil.com)
- 21 Statoil and sustainable development 2003 p. 36. Available on [www.statoil.com](http://www.statoil.com)
- 22 See Press Release dated February 1, 2005, which is available on [www.chevrontexaco.com](http://www.chevrontexaco.com) for more details.
- 23 Consultation with Chevron Texaco, February 9, 2005.
- 24 [www.eitransparency.org/implementation.htm](http://www.eitransparency.org/implementation.htm), for a list of countries working on EITI implementation and a list of countries engaged in discussions on possible implementation. Consulted on February 23, 2005.
- 25 2003 Chevron Texaco Corporate Responsibility Update, p. 11. Available on [www.chevrontexaco.com](http://www.chevrontexaco.com)

26 Consultation with Chevron Texaco on 26 January, 2005.

27 See [www.eitransparency.org/implementation.htm](http://www.eitransparency.org/implementation.htm) for a list of countries working on EITI implementation and a list of countries engaged in discussions on possible implementation.

28 The Memorandum of Understanding (MoU) was signed on 24 November, 2004. It is available on [www.eitransparency.org/docs/azerbaijanmou.pdf](http://www.eitransparency.org/docs/azerbaijanmou.pdf). The foreign oil companies that signed are as follows (bold type indicates companies included in this study. The only company studied that has not signed the MoU is CNPC): **BP, Exxon Azerbaijan Limited, Total E&P Azerbaijan BV, ITOCHU Oil Exploration (Azerbaijan) Inc, Lukoil Overseas, Conoco Phillips**, Karasu Operating Company, TPAO, **Devon Energy Caspian Corporation, Unocal Khazar Ltd, Shell Azerbaijan, Statoil, Amerada Hess (ACG) Limited**, Commonwealth Oil and Gas, Salyan Oil, Shengli Oil, Middle East

29 For further details of the process to be followed in Azerbaijan, please see the Memorandum of Understanding as in note 28.

30 BP Azerbaijan Sustainability Report 2003, p. 23. Available on [www.bp.com](http://www.bp.com)

31 See link to Exploration: Seram on [www.lionenergy.com.au](http://www.lionenergy.com.au)

32 [www.eitransparency.org/nigeriaupdate.htm](http://www.eitransparency.org/nigeriaupdate.htm). EITI Nigeria will consist of an Independent Audit of Revenues and Payments in Nigeria's extractive industries and the publication of all information and data on the extractive industries through a grassroots-based communication strategy and through the engagement of rural communities and regional civil society groups. For more information, please refer to the website.

33 Statoil and Sustainable Development 2003, p. 36. Available on [www.statoil.com](http://www.statoil.com)

34 Consultation with Shell, 21 January, 2005.

35 Interested parties are referred to TransAtlantic Petroleum's Annual Information Form 2003, which provided most of the information that the Supportive Disclosure indicators addressed. The AIF is available on [www.tapcor.com](http://www.tapcor.com)

36 See both companies' 2003 annual reports for details of their reporting practices. Available on [www.conocophillips.com](http://www.conocophillips.com) and [www.santos.com](http://www.santos.com)

37 See p. 60 of the report for further details. Available on [www.woodside.com.au](http://www.woodside.com.au)

38 "To seek mutually beneficial relationships with contractors, suppliers and in joint ventures and to promote the application of these principles in so doing," Statement of General Business Principles, p. 4. Available on [www.shell.com](http://www.shell.com)

39 PetroChina was listed on the New York Stock Exchange on 6 April, 2000. See link to About PetroChina → Company Profile on [www.petrochina.com.cn/english/](http://www.petrochina.com.cn/english/)

40 On July 15, 1993, CNPC produced the first overseas barrel of oil in the history of the Chinese petroleum industry. See link to About CNPC → History → The History of CNPC on [www.cnpc.com.cn/english/](http://www.cnpc.com.cn/english/)

41 Please see *Beyond the Rhetoric – Measuring revenue transparency: home government requirements for disclosure in the oil and gas industries*.

42 Consultation with BP, 27 January, 2005.

43 For a good example of such reporting practices, see the Talisman Energy Inc 2003 Corporate Responsibility Report, pp. 36–37.

44 As an example of forward-looking statements, see p. 60 of the Conoco Phillips 2003 Annual Report. Available on [www.conocophillips.com](http://www.conocophillips.com)