05 / 2011

Policy Position


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Achieving Greater Disclosure in the Oil & Gas Industry

Globally, petroleum and its derivatives account for 15 per cent of the world's trade. Oil and gas production serves to meet nearly 60 percent of the energy consumed worldwide. Demands on the industry are only rising as expanding economies such as China and India require more energy to grow.

The push for new sources of supply has led to a series of oil and gas discoveries, and increased hopes of a windfall for governments from Africa to Asia. Over the next 20 years, 90 per cent of production is projected to come from the developing world.

Natural resources can bring considerable amounts of wealth to a country. But certain conditions must be present for these riches to benefit citizens. One contributing fact is increased disclosure in key areas of company reporting. Such openness helps to ensure that the value created and gained from a country's oil and gas sector is more fairly shared among all stakeholders.

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1. Why disclosure by oil and gas companies matters

Greater transparency by companies ultimately helps to combat corruption, promote citizen trust and encourage a country's development. Transparency International and Revenue Watch Institute have assessed the levels of disclosure by oil and gas companies in their joint-report, *Promoting Revenue Transparency: 2011 Report on Oil and Gas Companies*. The report analyses the transparency of companies based on three areas: disclosure of anti-corruption programmes, organisational disclosure and country-level disclosure (see side bar). Such a range of disclosure ensures the transparency needed to soundly manage a country's resource wealth and effectively prevent corruption. It improves broader governance, benefitting a country's development and a company's operations.

Disclosure supports a country's development. The revenues generated from oil and gas exploration can be seen as a 'managed trust' for citizens on the part of their government. Oil and gas producers transfer considerable funds to host governments — in the form of license fees, royalties, dividends, taxes and support for local communities. These large financial inflows should contribute substantially to social and economic development; yet many resource-rich countries have not transformed resource wealth into well-being. When revenues are not managed with transparency and accountability, mineral and petroleum wealth can fuel large-scale corruption, as well as poverty, injustice and conflict.

Transparency provides a mechanism to re-shape how wealth is managed and who benefits. Publicly-accessible information on how much revenue is being generated from a country's resources allows citizens to be informed and engaged in how this money is shared and spent. It permits their involvement in decisions on the sector, the terms of licensing agreements with companies and how the revenue is used for society. Information opens up the door for public scrutiny and serves as a means to detect graft and mismanagement. Disclosure that is standardised, publicised and widely accessible allows for transparency to have far-reaching positive implications on national policy.

Disclosure supports a company's sustainable operations. Greater disclosure benefits, rather than compromises, a company's competitiveness and its corporate responsibility. It lowers the overall risk of corruption and money mismanagement, which are major considerations for multi-national businesses and their shareholders.

When companies disclose their anti-corruption programmes, it helps stakeholders to understand and assess the preventive measures that have been put in place. Organisational disclosure ensures that off-the-book activities are properly reflected in a company's accounting, such as through the transparent registration of subsidiaries and equity partnerships. Country-level disclosure leads to greater transparency about transfers and the sector's operations in host countries. This openness offers oil and gas producers a more level playing field and clearer rules of the game in order to compete more fairly in the marketplace.

Better company reporting is also better for investors. It allows for the validation of what companies are disclosing, such as through independent assurance, and promotes standardised and comparable reporting. Increased company information also gives analysts the ability to more properly assess extractive industry companies and their risks.

Anti-Corruption Programmes: The Need for Better Information

Disclosure of companies' anti-corruption programmes, while improving, still is not at the level it should be. The weakest reporting areas are on the prohibition of facilitation payments, anti-corruption training for business partners and corruption-related incidents.

Organisational Disclosure: Understanding Accounting

Reporting on relationships among companies, subsidiaries and partners, as well as providing adequate financial statements, allows for financial oversight by all stakeholders. Yet deficits exist in companies' organisational disclosure, including reporting on partnerships and their non-consolidated subsidiaries.

These gaps pose corruption risks. For example, the failure to disclose the equity holders in a company and its subsidiaries provides an obstacle to oversight and offers a potential safe haven for corrupt leaders to hold their stolen funds.

Country-Level Disclosure: Making Operations Open

Country-level disclosure is still very scarce across all companies. Yet it is essential if the sector is to be well-managed and for fair competition among companies. Disclosure involves providing information on transfers made to governments (direct and indirect), basic company operating data and key elements of profit-and-loss accounts.

2. Why greater company disclosure is possible

It is too often argued that greater public disclosure in the natural resources sector is not feasible. Increased transparency is written-off in the name of company competitiveness, the need to reduce financial costs or as a result of pressures coming from the host countries, among other reasons cited.

However, the findings of the *Promoting Revenue Transparency* report clearly indicate that none of these arguments are valid. The report shows that greater disclosure in the countries where they operate is possible for any of the companies that were assessed. The introduction of new government and stock exchange regulations in 2010 should further support an increase in company disclosure. For example, as a result of recent domestic measures, any company listed on stock exchanges in the United States and Hong Kong will be required to publish all payments to third-party governments on a country-by-country basis.

Some of the main reasons why greater disclosure is possible are:

Companies often under-report their anti-corruption programmes. As the report's findings indicate, many times the programmes are there but are not being reported publicly on websites or in company publications. Rather than create new programmes, companies simply need to better and more accurately disclose what they have in place and address any shortfalls where present. Greater disclosure would occur by providing better and up-to-date information through existing company websites. It would also happen by companies reporting on their anti-corruption programmes in accordance with the guidelines developed by the UN Global Compact and Transparency International (TI). All information disclosed on these programmes should also be independently verified, an area for which TI has developed guidance (e.g. the TI Framework for Voluntary Independent Assurance).

Different companies disclose differently in the same country. While no country has the same operating environment or challenges, the report's findings show that this is not a reason why greater disclosure is not possible by companies, particularly for country-level information. When it comes to technical and financial data, the differences in company reporting can be stark for the same country. For example, in Equatorial Guinea, the three US-based companies with upstream production there have disclosure levels ranging from 8 to 54 per cent. For companies in Norway and the US, corporate disclosure levels of their local operations run from 8 to 100 per cent and from 0 to 69, respectively. While operating within the same home and host laws, one can see how companies apply very different reporting standards. It also raises questions regarding the impediments for not disclosing more information.

The same types of companies have different levels of disclosure. The report's findings dispel the argument that levels of disclosure are different depending on whether a company is a national oil company (NOC) or an international oil company (IOC). When it comes to disclosing information along the three parameters assessed, large differences arise among the same kinds of companies. In the case of NOCs, this variation largely seems to be a result of how connected a company is with international initiatives and markets. For example, the best performing group for country-level disclosure (domestically and internationally) are NOCs that support the Extractive Industries

What Does the Promoting Revenue Transparency Report Cover?

The *Promoting Revenue Transparency: 2011 Report on Oil and Gas Companies* analyses publicly available information collected on 44 leading companies in the sector. They are based in 30 home countries and operate in 73 host countries around the world.

The surveyed companies cover 60 per cent of the global production of oil and gas. The group includes 33 globally important, large producers (Fortune Global 500 and/or Forbes Global 2000), plus 11 locally important national oil companies, mostly from oil-dependent countries such as Angola and Venezuela. Globally, national oil companies (NOCs) control 80 per cent of the world's production.

On average, all 44 companies performed relatively well on organisational disclosure, worse on reporting on anti-corruption programmes and very poorly on country-level disclosure.

While there still is a long way to go, the report's findings reveal that there has been a positive shift in the openness of companies, whether these are state-owned or privately-controlled, to be engaged with the issue of anti-corruption since the report was first published in 2008.

This Policy Position was produced by Craig Fagan of the TI Secretariat's Research and Knowledge Department.

The findings and recommendations are based on the *Promoting Revenue Transparency: 2011 Report on Oil and Gas Companies*, published by TI and Revenue Watch Institute.

To learn about TI's efforts on combating corruption in the private sector, visit: www.transparency.org/global_priorities/private_sector

For more information about this policy position and others in the series, please contact Craig Fagan at the TI Secretariat: plres@transparency.org

Transparency Initiative (EITI). Publicly-listed NOCs also are more transparent and report better than their state-controlled counterparts that do not have their shares traded.

3. What should be done

Greater disclosure by companies in the extractive industries can be a reality. Findings show that levels of reporting seem more a question of company will than financial or political obstacles. TI calls on the following key actors to take immediate action to address each dimension of disclosure.

For Companies:

- Detailed anti-corruption programmes should be publicly available.
- Companies should undertake voluntary independent assurance of their anti-corruption programmes.
- Companies should publish details of their subsidiaries and fields of operations.
- Oil and gas companies should increase their reporting on a country-by-country basis.
- Companies should join the Extractive Industries Transparency Initiative.
- Companies should create and maintain active corporate websites.

For National Oil Companies (NOCs):

- All NOCs should introduce internationally or generally accepted accounting standards, as well as publish independently audited accounts.
- The relationships between home governments and NOCs should be clear and publicly disclosed.

For Public Bodies:

- The European Union should amend relevant legislation to require EU-registered companies to report on their operations on a country-by-country basis.
- All governments that are home to oil and gas producers should require companies to report on their operations on a country-by-country basis.
- Stock exchanges should enforce regulations providing for country-level reporting.

For the Investor Community:

- International rating agencies and risk analysts should include transparency measures in their risk evaluation models.
- The International Accounting Standards Board should require companies to report key information on a country-by-country basis.
- Corporate responsibility indices should include reporting on anti-corruption programmes, organisational disclosure and country-level disclosure.

Transparency International (TI) is the civil society organisation leading the global fight against corruption. Through more than 90 chapters worldwide and an international secretariat in Berlin, Germany, TI raises awareness of the damaging effects of corruption, and works with partners in government, business and civil society to develop and implement effective measures to tackle it. For more information go to: www.transparency.org

ISSN 1998-6432

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