Frequently Asked Questions

PROMOTING REVENUE TRANSPARENCY PROJECT

2011 Report on Oil and Gas Companies

The Project & The Issues

Methodology

The Project

1) What is the Promoting Revenue Transparency project?

The Promoting Revenue Transparency project (PRT) focuses on the extractive industries, evaluating and comparing the degree of revenue transparency currently demonstrated by major companies and resource-rich countries. The first TI companies report, published in 2008, surveyed 42 companies in 21 countries. The *2011 Report on Oil and Gas Companies* report looks at 44 companies in their worldwide operations.

In November 2010 Revenue Watch Institute (RWI) in collaboration with TI published the Revenue Watch Index, measuring transparent disclosure by governments of resource-rich countries on the use of their extractive wealth.

2) Why should companies focus on transparency?

Transparency in corporate governance and financial reporting shows how much money is at stake and what companies are doing to safeguard against corruption. This is particularly important in countries that are rich in natural resources but the majority of citizens remain poor. Well-managed resource wealth can support social and economic development. Transparency is a necessary condition of such good management.

3) What areas of corporate transparency does the report assess?

The report assesses three areas that are all linked to different types of corruption risks.

- Anti-corruption programmes because they help prevent bribery.

- Organisational disclosure – because clarity on subsidiaries and equity partners helps prevent corruption based on conflict of interest. Offering partnerships and equity deals can be a form of corruption.

- Country-level disclosure of transfers from companies to governments because corruption may also occur in the misuse of corporate payments by public officials. Only when communities, civil society organisations and other stakeholders have this information can they hold their governments to account and ensure equitable value sharing of wealth – natural resources -- that belongs to all citizens.

4) How can companies, investors, governments and civil society use the report?

- **Oil and gas companies** can use this information to establish benchmarks and improvement plans, to self-assess their performance over time and improve reporting templates.
- **Investors** can use the PRT methodology to evaluate performance in the areas related to corporate transparency.
- **Governments of resource-rich countries** can look at the questionnaire used and encourage their national oil companies (NOCs) to adopt disclosure policies and practices along the lines assessed, and/or to focus on particular areas that need improvement.
- **Governments of countries in which companies are headquartered** or listed (the European Union, the stock exchanges, standard setters such as the International Accounting Standards Board(IASB) can enforce reporting standards in line with the recommendations in the report.
- **Civil society** can use the findings to identify areas for improvement both in terms of company performance and government regulation, and to monitor and follow up over time and advocate for improvements.

5) Can you compare the results of the 2008 and 2011 reports?

Direct and systematic comparison is limited due to changes in the methodology. However, certain overall trends can be compared.

Reporting of anti-corruption programmes by oil and gas companies is improving. The 2008 report identified 21 companies that scored zero in this category and in the 2011 report eight companies scored zero. This is a positive trend.

In both the 2008 and the 2011 reports, international oil companies (IOCs) performed better than national oil companies (NOCs), and publicly listed NOCs performed better than non-listed NOCs overall.

Companies are becoming more engaged. Twenty-four out of 44 companies reviewed their data and provided valuable information, feedback and comments for the 2011 edition of the report compared to less than 10 of the 41 companies analysed in 2008.

6) What are the differences between the PRT project and the Extractive Industries Transparency Initiative[i]?

The PRT project and Extractive Industry Transparency Initiative (EITI) are distinct but complementary. While the PRT project acts as a reminder to both companies and governments of their responsibilities under EITI, it encourages them to go beyond the requirements of EITI.

For example, the PRT report includes reporting of anti-corruption programmes and it recommends companies undergo voluntary independent assurance of these programmes, which EITI does not. The PRT recommendations also stress the need for country-by-country public reporting of financial data, including profit, by each company, which EITI does not.

In addition, the PRT Project reviews companies on their global operations and not only in the EITI countries. The report, therefore, surveys company operations in 70 countries. As of now, there are five EITI compliant countries and 28 countries in the process of trying to become compliant. Eighteen of the 44 companies in the PRT report support EITI. The report recommends that all oil and gas companies support EITI.

Methodology

7) How were the companies covered in the report selected?

- Industry materiality. The sample covers 60 percent of global oil production, almost 60 per cent of global gas production and 55 per cent of proven global gas reserves.
- Country materiality – major local players – regionally or nationally relevant companies.
- Continuity – comparability to the sample from an early research into revenue transparency in the extractive industries published in 2005 by Save the Children called 'Beyond the Rhetoric' and TI's *2008 Report on Revenue Transparency of Oil and Gas Companies.*
- Diversity – variety of companies by types, structures and categories, a geographic reach.
- Consistency – the NOCs are selected from countries where the extractive industries are an important part of the countries' exports.

Companies selected for the project are incorporated in 30 different countries.

8) How was the data gathered for the report?

The data was collected from publicly available sources, as follows:

- Data/information must be accessible from company's websites or the websites of the relevant international organisations and initiatives referred to in the question (eg. UNCAC, EITI).
- Data was collected between 1 February and 30 April 2010. Companies were given an opportunity to present additional information published after this period, but no later than the end of the data-review process in mid-July 2010.

When a positive answer to a question was found and positively scored, no further sources were required. If a piece of information was repeated in different sources, it was scored only once.

Data was evaluated exclusively on the basis of its availability – if it is disclosed or not.

The data was not verified. If the information that is disclosed is false, this will not be reflected in our study.

Each company received a set of questions and answers with proposed scores and sources of information. Twenty-four out of the 44 analysed companies used this opportunity to review data.

9) What standards are the companies being measured against?

The framework devised consists of a questionnaire with four sections on anti-corruption reporting, organisational disclosure, country-per-country disclosure and specific issues related to national oil companies. The indicators used relate to existing standards drawn from international sources, including the guidelines on financial reporting prepared by TI and the United Nations Global Compact and the EITI reporting principles.

10) How does the methodology account for the different environments in which companies operate

The methodology does not account for different country environments by weighting the scores. This is a conscious decision. The report criteria use best practice globally as a benchmark. The results demonstrate that even in challenging environments where some companies score badly, other companies are able to achieve strong scores for transparency.

Angola and Kazakhstan would be considered difficult environments. In the category covering disclosure of financial information there are big differences between company scores:

The report includes eight companies operating in Angola. Two score well above average but six companies, including three of the world's biggest oil producers, score 15 per cent of less.

In Kazakhstan, of the 11 companies operating, only two score above average, six score between 8 per cent to 15 per cent and three score zero (see page 37 of the report).

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