

# A Guide to the UK Extractive Industries Transparency Initiative (UK ETI)

## Impact on Mining Companies

On the 22nd May 2013, the Prime Minister announced the UK's commitment to sign up to the Extractive Industries Transparency Initiative (EITI). The UK Government aims to be accepted as a candidate country in 2014.

The purpose of this document is to provide UK mining companies with an introduction to EITI by answering some key questions. A number of aspects of UK EITI have yet to be agreed; this guide will be updated with further information as it emerges. Those updates will also cover points of detail that will build on the initial high level guidance shown below and will address questions received from companies.

### 1. What is EITI?

EITI is a global initiative that is supported by governments, industry and civil society organisations to improve transparency in the extractives sector. For countries where EITI is implemented, companies disclose details of certain payments that they make to governments in relation to their operations and the government discloses its receipts. These figures are then reconciled by an Independent Administrator and published in an annual EITI report.

The attached factsheet published by the EITI Secretariat provides an overview of EITI.

Click [here](#) for a factsheet published by the International EITI Secretariat provides an overview of EITI.

### 2. What are the objectives of EITI in the UK?

The agreed objectives that will form the basis of the UK EITI work plan are:

1. Recognise and support the principles set out in the 2013 EITI Standard.
2. Enhance accountability to the UK public on the revenues from the UK's extractives industries.
3. Increase public understanding of the social and economic impacts of the UK's extractive industries and enrich public debate on the governance and stewardship of the UK's oil, gas and mineral resources.
4. Ensure information is readily accessible and presented to the public in a clear manner.
5. Support moves towards common global reporting standards in oil, gas and mining and promote a level playing field for business in the UK and internationally.

6. Support the UK government's championing of extractives transparency and open government.

### 3. What is the status of the UK's EITI candidacy?

The Government aims for the UK to be accepted as an EITI candidate country before the end of 2014. To achieve this objective an application would need to be submitted to the International EITI Board in August 2014 for consideration at its next meeting in October 2014. If these target dates are not achieved this will have an effect on some of the other dates covered in this guide.

### 4. How is UK EITI managed?

Each national EITI initiative is managed by a multi-stakeholder group (MSG) comprising representatives from government, industry and civil society.

The 12 person UK MSG comprises representatives from the Department of Business, Innovation and Skills, HM Revenue and Customs (HMRC), the Department of Energy and Climate Change and the Scottish Government; industry representatives from the oil and gas and mining sectors; and for civil society Publish What You Pay, Global Witness, Transparency International and Eric Joyce MP.

The MSG meets every two months and works to an agreed work-plan and in accordance with agreed Terms of Reference. Further details on membership of the MSG and the minutes of its meetings are made available on the UK EITI website.

#### UK EITI Website

A limited number of observers may attend each MSG meeting. Requests to attend as observers should be sent to the UK EITI Secretariat at [\*\*business.transparency@bis.gsi.gov.uk\*\*](mailto:business.transparency@bis.gsi.gov.uk)

### 5. Which mining companies have to report under UK EITI?

Companies that participate in mining activity in the UK that make any of the payments to the UK government will be impacted by UK EITI. UK EITI does not apply to payments that relate to non-UK operations of these companies, whether made to the UK government or any other fiscal authority.

## 6. What do companies need to do?

Companies will be requested to complete a template and include the total amounts for specified payment types on a 'cash paid' basis for the reporting period. This disclosure template will be issued by an Independent Administrator who will also be provided with information on government receipts.

## 7. How will the issue of taxpayer confidentiality be handled?

HMRC operates under strict rules that govern the sharing of information. Under EITI, fiscal authorities provide the Independent Administrator with information on tax payments made by each company so that this information can be reconciled with the information on tax payments made by the companies. This reconciliation is at the heart of the EITI process.

HMRC is considering a number of options, including a form of 'taxpayer waiver', to enable it to provide this information to the Independent Administrator.

## 8. When will companies be impacted by UK EITI?

If the UK's candidacy application (as described in Question 2) is accepted at the EITI Board meeting in October 2014, the UK will be required to publish its first report within 18 months, i.e. by April 2016.

To enable the Independent Administrator to reconcile the information that it will have received from companies and governments, it is likely to need to have received all that information towards mid-2015.

It is probable that the first UK EITI report will aim to cover payments made in the calendar year 2014.

The key dates in the timeline are therefore:

<b>August 2014</b>	Target Date for EITI Candidacy Application
<b>October 2014</b>	Target Date for approval of UK Candidacy
<b>March 2015 (indicative)</b>	Template requesting 2014 payment data issued to companies
<b>June 2015 (indicative)</b>	Deadline for the submission of completed templates
<b>April 2016 (indicative)</b>	Target date for 1st UK EITI Report

The timetable for the issuance and submission of the template will be determined by the Independent Administrator. The deadline for submission may be later in 2015.

This provisional timetable is also subject to the completion of work by the MSG on the processes to adopt for the reconciliation.

## 9. What types of payment need to be disclosed?

The EITI process seeks the disclosure of payments and receipts that are considered material for the country concerned. Further information on payments included for the mining sector will be published in due course.

## 10. What other information do companies need to provide beyond the required information on payments?

Companies will be requested to provide information on their beneficial ownership. For listed companies this will generally only involve listing the name of their subsidiaries that are active in the UK extractive sector and stating that the company is listed. For non-listed companies, information will have to be provided on the ultimate ownership of the company. This would require the disclosure of the names of the individuals who ultimately own the company.

## 11. What additional information will be included in the UK EITI Report?

The UK EITI Report will include contextual information on the UK oil and gas sectors as well as mining to put the payment information into the context of economic and social benefit to the UK. This will include information that is already published by various government departments, such as 5 year data for:

- Aggregate historical production
- Aggregate production forecasts
- Aggregate operating costs
- Aggregate capital expenditure
- Aggregate expenditure on exploration and appraisal
- Aggregate decommissioning costs
- Aggregate exploration, appraisal and development drilling activity

## 12. What is the relationship between UK EITI and the government payment disclosure requirements in the EU Accounting Directive?

The disclosure of payment information under UK EITI only relates to UK operations and to payments made to UK government departments. Chapter 10 of the EU Accounting Directive requires publicly listed and large<sup>1</sup> unlisted UK companies active in the extractives industries to disclose similar payment information for payments made to governments not just in the UK but in all countries in which they or their relevant extractives subsidiaries operate.

As noted in the response to Question 6, to comply with UK EITI companies will complete a template that will be issued by an Independent Administrator. Under the EU Accounting Directive, companies will be required to submit a report to Companies House.

As noted in the response to Question 8, the first EITI Report is expected to cover payments made in the calendar year 2014. A consultation process is underway in relation to the transposition of Chapter 10 of the EU Accounting Directive into UK law. The consultation document envisages the 1st reporting period covering payments made in the first accounting period commencing on or after 1st January 2015.

## 13. How can companies benefit from EITI?

Please refer to the information provided in the appendix for a list of the potential ways in which EITI can deliver benefits to companies

## Contacts

### Government

For more information on EITI, please contact Margaret Sutherland on 020 7215 3585  
[margaret.sutherland@bis.gsi.gov.uk](mailto:margaret.sutherland@bis.gsi.gov.uk)

For more information on the EU Accounting Directive, please contact Maureen Beresford on 0207 215 3342  
[maureen.beresford@bis.gsi.gov.uk](mailto:maureen.beresford@bis.gsi.gov.uk)

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<sup>1</sup> "Large" unlisted companies are defined in the EU legislation as those which, on the relevant balance sheet date, meet two of the following three criteria: (a) balance sheet total €20 million; (b) net turnover €40 million; (c) average number of employees during financial year 250.

## Appendix

### How can companies benefit from EITI?

The benefits of EITI to companies and investors centre on mitigating political and reputational risks.

Political instability caused by opaque governance is a clear threat to investments. In extractive industries, where investments are capital intensive and dependent on long-term stability to generate returns, reducing such instability is beneficial for business.

Transparency of payments made to a government can also help to demonstrate the contribution that their investment makes to a country.

EITI participation can deliver enhanced relations with stakeholders and local communities, better risk management, improved company reputation and the opportunity to demonstrate industry leadership.

EITI implementation benefits companies both in the countries where they operate and internationally.

### Local benefits for companies

Once a company has decided to make an investment, one of its main focuses will be on building a long-term, sustainable business in that country. The EITI can be an important contributor by creating:

- 1. Stronger social license to operate, better relations with communities and government.** The EITI provides companies with a proven, neutral platform for building understanding about the many different ways in which a company's business contributes to the communities in which it works, as well as to government revenues.
- 2. Tool to understand and mitigate political risks and public discontent, in order to safeguard assets and pave the way for further investments.** Political instability and opaque governance increase investment risk for companies. Openness around the extractive industry and its value creation, importance for the economy will lead to more predictable social and political development.
- 3. A catalyst for developing local capacity and infrastructure.** As companies need access to competent staff, they benefit from well-educated local staff and competitive services. A local supplier industry and well-functioning infrastructure and public services will facilitate smooth running of the business and reduce the need for expensive expatriate staff and imported goods and services.
- 4. Level playing field. Most international companies would like to see the same reporting requirements for all companies.** When a country implements the EITI, all companies are required to be equally transparent about their payments to the government.
- 5. Opportunity to directly affect disclosure requirements and challenge corrupt practices.** The EITI gives companies an opportunity to shape the detailed reporting requirements in the various implementing countries. Companies serving on the international Board and its committees help shape the global EITI Requirements.

**6. A forum for addressing sector issues.** With government and civil society both at the table, the EITI provides the forum for discussing key sector issues such as governance and effective spending of revenues.

#### **International benefits for companies**

**7. Credibility and reputational assurance.** As a key component of the global standards for transparency and accountability in the extractive industries, the EITI conveys credibility and reputational assurance to companies seeking to operate according to international standards. With calls for greater transparency on the rise, active participation in the EITI is one way for companies to demonstrate their commitment to transparency and accountability.

**8. Respect as an industry leader.** Shareholders, investors, employees, competitors, civil society groups, the media and other external stakeholders view companies' disclosure of payments in EITI implementing countries and active support for the EITI as an example of principled leadership.

**9. Delivering on commitments to sound business practices.** The EITI contributes to companies' own codes of ethics, corporate responsibility policies and other commitments that require them to operate transparently and ensure that their operations are free from corruption.

**10. Improved access to finance.** Regular EITI Reports on payments and revenues can improve the creditworthiness of both companies and countries. When a country's sovereign credit ratings and governance indicators improve, it eases access to finance, can attract investors and strengthens the image of companies operating there.