

# UK EITI Annual Progress Report 2016

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## Introduction

The Extractive Industries Transparency Initiative (EITI) is a global standard aimed at promoting the open and accountable management of a country's oil, gas and mining resources. Companies disclose their payments to government agencies and these payments are reconciled against government receipts from these companies.

The UK's commitment to participate in EITI was announced during its G8 presidency in May 2013. The first meeting of the UK's Multi Stakeholder Group convened in October 2014, and a year later the UK was recognised as a candidate country. In accordance with the requirements of the EITI Standard, the UK's second annual EITI report was published on 31 March 2017.

The Initiative sits within the UK Government's wider agenda for increasing transparency, improving trust in business and reducing corruption. It is currently (end June 2017) Championed by Margot James MP who was first appointed to the role of Parliamentary Under-Secretary of State for Small Business, Consumers and Corporate Responsibility in July 2016.

Following a thorough review of the first year's reconciliation process and addressing specific recommendations by the Independent Administrator, the MSG agreed two key amendments to the oil and gas reconciliation. These were; - bringing into scope payments to The Crown Estate (TCE) and targeting the reconciliation of payments to the Oil and Gas Authority (OGA). This resulted in a number of the smaller companies falling out of scope of the reconciliation process.

## Foreword

I'm pleased to present the Annual Progress Report (APR) for the UK Extractive Industries Transparency Initiative (EITI). This report provides an update on the activities completed by the members of our Multi Stakeholder Group (MSG) and EITI Secretariat in the last year.

2016 saw the successful publication of the first UK EITI report and ongoing work to produce a refined and improved product in 2017. That was achieved when the UK EITI Champion, Margot James MP launched the 2<sup>nd</sup> EITI Report in Aberdeen on 31 March 2017. A very well attended event heard addresses from the BEIS Minister, and from Paul Wheelhouse MSP, the Scottish Government Minister with responsibility for energy, as well as contributions from members of the various MSG constituencies.

I would like to take the opportunity here to thank both the MSG for their continued dedication to the EITI agenda and all of the companies who participated in the reporting process. The 2<sup>nd</sup> report successfully reconciled a net total of £904 million of revenues received by UK government agencies from extractives companies in 2015 and there was a substantial increase in participation levels amongst companies judged to be within scope of the Initiative's reporting requirements, with 90% of "in scope" companies from oil and gas and mining and quarrying sectors taking part.

Looking ahead, the MSG will be exploring mechanisms to achieve 100% company participation in the context of the 3<sup>rd</sup> report. We need this participation level to ensure that we are in a position to start the journey to full compliance with the EITI Standard when the validation process begins in July 2018. I am confident that the MSG will rise to this challenge and I look forward to another successful year.

**Chris Carr, Chair of the UK EITI Multi Stakeholder Group**

# 1. General assessment of year's performance

## Overview

The MSG met 6 times in 2016. Minutes from all MSG meetings as well as other useful information can be found on the UK EITI webpages:

<https://www.gov.uk/government/groups/uk-extractive-industries-transparency-initiative-multi-stakeholder-group>

To correspond with the reporting package being issued to companies, a detailed guidance page was also created for companies:

<https://www.gov.uk/guidance/extractive-industries-transparency-initiative>

## MSG Membership and Secretariat changes

The industry constituency welcomed Matt Landy from Statoil, who replaced Andrew Enever of Shell. Additionally, Robert Le Clerc from CBI Minerals Group retired. In early 2017 Claire Ralph of Oil and Gas UK (OGUK) was replaced by Romina Mele-Cornish (OGUK) as an alternate industry member.

For the civil society constituency Colin Tinto stepped down from the group in late 2016 and Miles Litvinoff resigned at the end of March 2017.

The Government constituency welcomed Maureen Beresford who took over the chair role from Marie-Anne Mackenzie until September 2016, when Chris Carr became chair of the MSG. Jeff Asser became the representative for the Department for Business, Energy and Industrial Strategy (BEIS) and Martyn Rounding replaced Alan Tume for HMRC. Joe Perman took over from Stephen Martin as the Scottish Government representative. Mike Nash took over from Vina Krishnarajah in the Secretariat in August 2016 and in early 2017, Margaret Sutherland left the Secretariat to be replaced in March by David Leitch in the post of UK National Co-ordinator.

## Terms of Reference

The MSG Terms of Reference did not change throughout 2016 and remained in line with the EITI Association's Code of Conduct.

## Independent Administrator

The Independent Administrator remained Moore Stephens, who were in the second year of a three year contract.

## MSG Sub-groups

The detailed work on UK implementation continued to be taken forward by sub-groups, which develop policy and make recommendations for discussion and agreement at MSG meetings. Sub-groups consist of representatives from each constituency, with experts being invited to participate, if required.

The main sub-groups that met in 2016 were communications, reconciliation and contextual information. There was also a sub-group that met to look at the mining and quarrying section of the contextual chapter. Issues related to beneficial ownership and open data were dealt with within the reconciliation subgroup.

### Communications sub-group

The communications sub-group met three times throughout the year. The sub-group looked at lessons learned from the first report to inform the task of securing higher engagement in the process and improved communication for the second report.

**Engagement** - In order to engender faith and trust in the exercise, the MSG decided to reach out to companies at the beginning of the reconciliation process by communicating lessons learned as a consequence of teething problems experienced during the process which led to the 2014 Report. At the same time, it was agreed that Independent Administrator, Moore Stephens, would send a “final confirmation” of the eventual reconciliation data to companies to avoid the situation where incorrect payments were erroneously included in the final published report.

For the second report the sub-group agreed the use of a “champion letter”, from the MSG Chair, aimed at those that didn’t participate but made material payments. The letter was deployed once other forms of escalation and intervention had been exhausted.

The group agreed that a consolidated list of contacts should be compiled to ensure that communications were sent to the right contacts and gaps and omissions were avoided.

**Process** - The sub-group updated and refined the guidance for industry participants. A letter from the MSG Chair was developed to help contextualise the focus of the 2015 Report process and to set out a clear timetable for its progress. A more comprehensive, step-by-step guide for completing templates was provided, illustrated by worked examples. A paragraph explaining beneficial ownership was added along with the addition of a repayments column on the mining and quarrying template.

The sub-group also worked to update the waiver required from companies new to EITI to ensure that it satisfied the requirement of the 2016 Standard.

### Contextual sub-group

The contextual sub-group met formally two times. It examined the contextual chapter from the first report and drew up a list of recommendations on how to improve aspects of the text and to plan next steps for the second report.

Recommendations emerged for the inclusion of additional text addressing the subject of fracking of shale gas, an explanation of the licensing round for the oil and gas sector and

narrative around the limited direct subnational payments which take place in the UK. It was additionally decided that the chapter should be shortened to four sections:

- Sector Overview
- Oil and Gas
- Mining and Quarrying
- The UK's Budget and Audit Processes

## Reconciliation sub-group

The Reconciliation sub-group, chaired by HMRC representative met three times in 2016. This sub-group was responsible for finalising the reporting package and making recommendations on methodology to the MSG ahead of templates being issued.

## Methodology

**Oil & Gas** - In preparation for the report, the MSG considered which revenue streams should be included within scope of the reconciliation. The reconciliation sub-group prepared a paper listing potential revenue streams which could be included in scope.

As a result, the MSG agreed that Ring Fence Corporation Tax, the Supplementary Charge, Petroleum Revenue Tax and petroleum licence fees would be in scope for oil and gas companies for the UK EITI reconciliation exercise.

The new Oil and Gas Authority (OGA) Levy was added to scope. The OGA was established as the independent authority responsible for the licensing of oil and gas exploration and production in the UK April 2015 and became a government company (GovCo) on 1 October 2016. From October 2015 the OGS has been the recipient of an industry levy designed to fund the organisation in line with the established principle across regulation and service delivery of 'user pays', where the Authority recovers its costs from the companies benefiting from its services.

The MSG also agreed that payments to The Crown Estate (TCE) in respect of rights to install and operate undersea oil and gas pipelines should be added to the EITI scope.

**Mining & Quarrying** - The sub-group agreed that for mining & quarrying companies, in addition to (mainstream) corporation tax, extractive-related payments to The Crown Estate (TCE) and the Coal Authority should be in scope.

**Beneficial Ownership (BO)** - All companies incorporated in the UK now have to report under the Persons with Significant Control (PSC) rules.

The UK EITI MSG agreed to incorporate beneficial ownership (BO) disclosure from the first report and as an ongoing reporting requirement. Accordingly, companies reporting under UK EITI were asked to disclose their beneficial owners.

Contributions in this area have shown an increase from last year, with 15 private companies responding, 6 of which provided relevant information or links. This compared to 1 of 13 private companies providing material beneficial ownership information for last year's report.

**Open Data** - In January 2017 the MSG approved an open data policy for UK EITI. The MSG agreed that each UK EITI report and associated data should be published on UK Government websites. This would ensure that all UK EITI data are published in a standardised, open format, which is machine-readable and can be accessed by all through the data.gov website. UK EITI data published on data.gov.uk is published as public sector information licensed under the UK's Open Government Licence v3.0.

Where datasets have been developed for the purpose of the UK EITI report e.g. reconciliation and contextual data, these will be available on data.gov.uk. To the extent possible, these datasets will be published simultaneously with the UK EITI report.

Data from the second report was published simultaneously in open data format.

## **Compliance**

The reporting template was circulated electronically to 79 extractive companies by the end of August 2016. The number of in scope companies was subsequently adjusted to 67, with 13 companies being identified as outside the scope of the exercise and one company added.

In October and February "chaser" letters were sent from the Chair of the MSG to the oil and gas, mining and quarrying companies that had yet to respond. Additionally, industry representatives chased outstanding companies.

Ultimately a total of 42 oil and gas companies and 18 mining and quarrying companies participated in the compiling of the report, showing a higher level of participation than the previous year.

## 2. Assessment of performance against targets and activities set out in the work-plan

Objective	Progress
Recognise and support the principles set out in the 2013 EITI Standard.	<p>In fulfilling this objective the MSG:</p> <ul style="list-style-type: none"> <li>• Met six times in 2016</li> <li>• Ensured that the contextual information was enhanced for the 2<sup>nd</sup> report.</li> <li>• Agreed an updated reporting package for companies. This was issued by Moore Stephens in August 2016.</li> </ul>
Enhance accountability to the UK public on the revenues from the UK's extractives industries.	The second report provided a further key vehicle for increasing awareness and therefore accountability.
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.	<p>The MSG has accomplished the following in relation to this objective:</p> <ul style="list-style-type: none"> <li>• The 2<sup>nd</sup> Report provided an expanded and highly informative narrative on the social and economic aspects of the extractives sector in the UK.</li> <li>• The 2<sup>nd</sup> UK EITI report was launched publicly at an event in Aberdeen on 31 March 2017.</li> </ul>
Ensure information is readily accessible and presented to the public in a clear manner.	This objective is largely aimed at ensuring the EITI reports are accessible. Work was undertaken to ensure the UK's 2nd report and detailed supporting information was clear and accessible on the GOV.UK website which provides a hosting service for the UK MSG's published information. Data from the second report was published simultaneously in open data format.
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.	<p>The MSG is keen not only to encourage global standards, but also to reduce burdens on business. UK EITI continues to align where practicable with the Reports on Payments to Governments Regulations 2014. For instance, the £86,000 threshold for payments under the Directive is mirrored for EITI.</p> <p>The Reports on Payments to Governments Regulations were laid in December 2014 and require all large and listed extractives companies to detail the payments they have made to governments across the world. Companies began to file reports over the course of 2016.</p>

<b>Objective</b>	<b>Progress</b>
<p>Support the UK government's championing of extractives transparency and open government.</p>	<p>DFID and the FCO regularly update UK Embassies on progress of the UK EITI.</p> <p>Knowledge sharing has been an important way of both promulgating the UK's implementation of EITI but also of learning of, and from, progress in other countries.</p> <p>Representatives from Germany and the Netherlands have attended UK MSG meetings and members of the UK Secretariat and the MSG have attended meetings of MSGs in other candidate countries.</p> <p>Experts, observers and nominated people are always welcome to MSG meetings.</p>

### 3. Assessment of performance against EITI requirements

Requirements:	Progress:
<p>Effective oversight by the multi-stakeholder group.</p>	<p>The MSG meets every two months and the detailed work on implementation is undertaken by sub-groups in between MSG meetings. The sub-groups include representatives from each constituency. They make recommendations to the MSG for agreement.</p> <p>The key decisions made by the MSG in 2016 included:</p> <p><b><u>26 January 2016</u></b></p> <p>Agreement around the final coverage of the first Report and around the decision to send embargoed copies of the document to participating companies in advance of publication.</p> <p><b><u>15 March 2016</u></b></p> <p>Matters around the treatment of beneficial ownership information were agreed.</p> <p><b><u>17 May 2016</u></b></p> <p>Agreement to retain the £86,000 materiality threshold for the purposes of the 2<sup>nd</sup> Report in order to stay within the requirements of the Directive.</p> <p>Agreement that, pending the outcome of the reconciliation exercise on a sample cross-section of companies, the OGA would unilaterally report receipts from companies in scope of EITI.</p> <p><b><u>12 July 2016</u></b></p> <p>Agreement that the IA should develop and propose to the Secretariat a methodology for a targeted issuance of reporting templates and reconciliation of payments for the oil and gas sector.</p> <p>Agreement that, to give civil society time to develop a proposal, the September meeting would consider a non-London based event for the launch of the 2<sup>nd</sup> Report.</p>

Requirements:	Progress:
	<p><b><u>13 September 2016</u></b></p> <p>Agreement that tax waivers already in place from the previous reporting cycle should stand, but that revised waivers would be issued for companies newly in scope of EITI for the 2nd Report.</p> <p>Agreement that, in order to avoid duplication of effort, companies ought to be able to cross-refer to beneficial ownership information provided to Companies House's recently established Person of Significant Control (PSC) Register.</p> <p>It was agreed that a launch event in Aberdeen with Ministerial involvement would be beneficial and positive for UK EITI.</p> <p><b><u>22 November 2016</u></b></p> <p>Agreement that the IA should provide a civil society representative with data relating to Beneficial Ownership</p> <p>The Chair and Scottish government representative agreed to discuss arrangements and etiquette around the respective Government Ministerial attendance at the Aberdeen launch event.</p> <p>Civil Society representatives agreed to discuss twitter analytics with the BEIS digital team.</p>
Timely publication of EITI Reports.	<p>The UK's second EITI report was published in March 2017 and can be found at:</p> <p><a href="https://www.gov.uk/government/publications/extractive-industries-transparency-initiative-payments-report-2015">https://www.gov.uk/government/publications/extractive-industries-transparency-initiative-payments-report-2015</a></p>
EITI Reports that include contextual information about the extractive industries	<p>The Contextual sub-group was responsible for drafting an expanded contextual chapter in the 2nd EITI Report. Link to the report is above.</p>
The production of comprehensive EITI Reports that include full government disclosure of extractive industry revenues and disclosure of all material payments to government by oil, gas and mining companies.	<p>The UK's second EITI report was published in March 2017. Compliance rates showed a marked increase on last year with 95% compliance rate for oil &amp; gas and 78% for mining &amp; quarrying. In 2015 these figures were 54% for oil and gas and 38% for mining and quarrying.</p>

<b>Requirements:</b>	<b>Progress:</b>
A credible assurance process applying international standards	<p>Reporting template from companies had to be countersigned by a senior individual with the company to confirm that the figures provided were credible.</p> <p>For the beneficial ownership template options for qualified and full attestation were made available to companies.</p>
EITI Reports that are comprehensible, actively promoted, publicly accessible, and contribute to public debate.	The UK's second EITI report was published in March 2017. The report was formally launched in Aberdeen to an audience of industry and civil society representatives by the UK EITI Champion, Margot James MP. Copies were simultaneously made available on UK EITI website.
The multi-stakeholder group to take steps to act on lessons learned and review the outcomes and impact of EITI implementation.	The MSG has an ethos of continuous improvement and considers carefully how it can incorporate worthwhile and relevant recommendations it receives from the IA, from the International EITI Secretariat and from other stakeholders and interested parties.

## 4. Overview of the multi-stakeholder group’s responses to the recommendations from reconciliation

The following are updates to the recommendations from the IA to the MSG. There are two that have not yet been implemented.

Title	Brief summary of recommendation	Status	Reasons for rejection
Reporting template for government agencies	The MSG should agree on a reporting template for Government Agencies reporting. This should be designed to facilitate the reconciliation work.	Not yet implemented	
Reporting unit	Both extractive companies and government agencies are asked to report their payments in units of £ to avoid confusion.	Implemented	
Materiality threshold for the revenue streams	The materiality threshold should be applied to the company and not to each payment stream. If one tax meets the materiality threshold of £86,000, all other taxes under the materiality threshold would then be included in the EITI scope.	Rejected	The MSG was concerned that this would move EITI away from the mandatory reporting requirements. As the key issue underlying the recommendation was that companies had reported revenue streams inconsistently, the MSG agreed that the materiality threshold should not be changed for 2015.
Overall coverage of the report	The MSG should introduce the EITI to extractive companies through a strong awareness campaign such as conferences, meetings, workshops, etc.	Implemented	
Determining in scope companies in the mining & quarrying sector	It would be worthwhile reviewing the methodology used in order to better identify mining and quarrying companies within the scope of EITI as the current methodology does not identify companies by the value of extraction, profitability or potential payments to Government. One avenue to explore could be the potential to link participation in EITI with the UK implementation of the Reports on Payments to Government Regulation 2014.	Implemented	
Register of licences for the mining and quarrying sector	The MSG should discuss the possibility of requesting licence information from mining companies included in the scope of the EITI Report. This can be done through the reporting template where detailed information can be requested. The information collected from companies could then be annexed to the EITI report and / or a publicly accessible register could be set up.	Not yet implemented	

## 5. Strengths or weaknesses identified in the EITI process

The UK's second EITI report was published in March 2017. The MSG will undertake a lessons learned exercise after the May 2017 meeting. The MSG will also evaluate the following recommendations made in the second report by Moore Stephens.

### **Companies incorrectly included in scope:**

It was noted that several entities were incorrectly included in the initial 2015 EITI reconciliation scope. Some of them were non-material taxpayers, others were non-extractive companies. It was recommended that the MSG devise a new methodology for the next UK EITI report for determining which companies are in scope.

***The reconciliation sub-group will discuss ways in which the methodology for identifying in-scope companies could be improved.***

### **Interest paid/repaid:**

The MSG decided to include interest and penalty payments along with the payment they are associated. It was noted that HMRC did not include interest paid or repaid within the payment data that they initially provided to Moore Stephens. Interest is calculated by the Audit Office which was not involved in the reporting process. Consequently it is possible that some companies were excluded from the EITI reconciliation scope which would have exceeded the materiality threshold had interest paid been added. It was recommended that HMRC aim to include interest in the data it provides to Moore Stephens.

***HMRC is reviewing its processes to see if it can make any improvements so that the data it provides is as accurate as possible.***

### **Lack of distinction between cash payments and offsets from previous years:**

HMRC were not able to distinguish cash payments received during the year from offsets. It was recommended that HMRC seek to amend its computer systems to enable this distinction to be made.

***As above, HMRC is reviewing its processes to see if it can make any improvements so that the data it provides is as accurate as possible.***

### **Lack of distinction between ring fence Corporation Tax and non-ring fence Corporation Tax:**

It is not currently possible for HMRC to establish how much of each cash payment relates to RFCT and SC and how much relates to NRFCT. This makes the reconciliation akin to unilateral disclosure. It was recommended that companies inform HMRC when making payments whether they relate to ring fence or non-ring fence corporation tax.

***Companies are asked to tell HMRC when they make payments whether they relate to ring fence or non-ring fence liabilities. The MSG will consider whether this could be communicated to companies more effectively.***

## 6. Costs of implementation

BEIS EITI Secretariat consisted of 2 full time members of staff who work on EITI, the Chair, as well as some additional admin support at MSG meetings.

The totalled figure from the civil society members that reported activity came to 205 days.

Oil and gas representatives estimated 111 days in total with mining quarrying representatives estimating 36 days.

BEIS contracted Moore Stephens for 3 years to undertake the reconciliation on behalf the MSG. Moore Stephens are now in their second year. This followed a competition using an existing government framework advertised with a ceiling of £240,000/year.

## 7. Details of membership of the MSG during the period

There were 6 meetings of the MSG in 2016. For details of minutes and attendance please see:

<https://www.gov.uk/government/groups/uk-extractive-industries-transparency-initiative-multi-stakeholder-group>