

# UK EITI Annual Progress Report 2017

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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 was 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 third annual EITI report was published on 30 April 2018.

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 2018) Championed by Andrew Griffiths MP, who was appointed to the role of Parliamentary Under Secretary of State for Small Business, Consumers and Corporate Responsibility in January 2018.

The extractive industries are important sector contributing a gross value added (GVA) of £27.3 billion to the UK's economy in 2017. In 2017, According to the latest ONS data, the extractives sector was directly responsible for 35,000 jobs with many more supported in the industry's wider supply chain. The UK was the world's 21st largest producer of oil and gas, with upstream activity supporting hundreds of thousands of jobs in Scotland and across the rest of the UK.

2018 will be an important year for the UK EITI. July sees the beginning of a validation process to assess the UK's performance against the EITI Standard and our progress towards becoming a fully compliant participant.

## Foreword

Welcome to the Annual Progress Report for the UK Extractive Industries Transparency Initiative (EITI). The report provides a snapshot of the activities of our Multi-Stakeholder Group (MSG) and EITI Secretariat in 2017.

I took up the role of Chair of the MSG towards the end of 2017. The year saw considerable turnover in the membership of the MSG – partly a result of some original members reaching the end of their terms of appointment. I'd like to thank all outgoing members for their significant contributions to the group and, indeed, to Chris Carr, my predecessor as Chair.

We have recently published our 3<sup>rd</sup> UK EITI report, which sets out reconciled data for payments between extractive industries and Government over 2016. Though the report was published in April 2018, the majority of the groundwork and research was carried out in 2017 by the various sub-groups made up of industry, civil society and government officials. I would like to take this opportunity to thank the 41 oil and gas and 17 mining and quarrying companies which participated in the process. I would also like to thank the MSG representatives who devoted a great amount of time and energy to ensure the successful publication of the report.

The reconciled figures in the 3<sup>rd</sup> report show a net repayment of tax to oil and gas companies of nearly £456 million, despite higher production and lower expenditure. This situation has arisen as a result of the way the UK fiscal regime treats losses from previous years, combined with relatively low oil and gas prices and the maturity of many of the fields in the North Sea.

2018 is a crucial year for the MSG. Work has already begun on bringing together the next set of data, which will cover 2017 payments. The MSG has set itself the goal of publishing this data by the end of 2018, ensuring more timely data. We will be looking at ways to make better use of digital formats when publishing that next report and reviewing the scope to 'mainstream' more of the data in future years. And, from July 2018, the UK will be assessed against the EITI Standard to determine whether it will become a fully compliant EITI country. The MSG looks forward to engaging with that process and demonstrating the significant progress made since the group first convened nearly four years ago.

**Matthew Ray**

**Chair of the UK EITI Multi Stakeholder Group**

# 1. General assessment of year's performance

## Overview

The MSG met 5 times and held a “progress update” meeting in 2017. Minutes from all formal 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 changes

The Government constituency welcomed Matthew Ray, from the Department for Business, Energy and Industrial Strategy, who replaced Chris Carr as Chair in September 2017. Thomas Thornton-Kemsley replaced Chris Daboiko as the HM Treasury representative in December 2017. Paul Russell (Department for Education) was replaced by Martin Quinn (Department for the Economy Northern Ireland) in December 2017. Rhona Birchall replaced Jonathan Atkinson as the Department for International Development's representative in July 2017.

The industry constituency welcomed Howard Forti from ExxonMobil who replaced Roger Salomone also from ExxonMobil in April 2017. Jacquii Akinlosotu from ENI replaced Stephen Blythe in October 2017 and Martin Kirkham from Chevron filled the vacant alternate industry position in July 2017.

The civil society constituency welcomed Lorraine Allanson and Norbert Mbu Mputu, who replaced Eric Joyce and Danielle Foe in December 2017. Ms Allanson and Mr Mputu have initially been appointed for a 12 month period. The nomination process for civil society constituents was the subject of considerable discussion at MSG meetings throughout 2017. As agreement had not been reached by the end of the year, the Chair wrote to civil society organisations inviting them to nominate representatives to join the MSG for a 12 month period to allow deliberations to continue.

## Terms of Reference

The MSG Terms of Reference did not change throughout 2017 and remained in line with the EITI Association's Code of Conduct.

## **Independent Administrator**

The Independent Administrator remained Moore Stephens.

## **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 2017 covered the following areas: sectoral information, reconciliation and communications. There was also a separate sub-group that met to develop the mining and quarrying section of the information chapter of the 3<sup>rd</sup> report. Issues related to beneficial ownership and the EITI process for companies were dealt with within the reconciliation sub-group.

### **Sectoral information sub-group**

The sectoral information sub-group met formally four times. The subgroup agreed a number of proposals to improve the presentation of the report as a whole, including an expanded introduction section and a clearer indexation format.

Improvements to the sectoral chapter included accrual (as well as cash) figures for UK government revenues from upstream oil and gas, a more detailed breakdown of the regional distribution of extractives activity and enhancements of historical data for Brent Spot and Gas Spot prices.

A sub-group was also set up to look specifically at mining and quarrying. The group met once and primarily looked to ensure all in-scope material paying companies were captured for the 2016 process.

### **Reconciliation sub-group**

The Reconciliation sub-group, chaired by our HMRC representative, met four times in 2017. This sub-group was responsible for finalising the reporting package and making recommendations on methodology to the MSG ahead of templates being issued, including the proposal to bring forward the 2017 exercise by four months.

### **Communications sub-group**

The communications sub-group met once in the year. The sub-group discussed plans for the launch of the 3<sup>rd</sup> UK EITI report and communications around the publication of the report. Ultimately, no formal launch event took place for the 3<sup>rd</sup> Report, the MSG taking the view that timely publication was the priority. The MSG will instead develop plans for an event to launch the 4<sup>th</sup> report, which it intends to publish by the end of 2018.

## Methodology

### Oil & Gas

A combined total for Ring Fence Corporation Tax and the Supplementary Charge, Petroleum Revenue Tax (including any Advance Petroleum Revenue Tax) and petroleum licence fees are in scope for oil and gas companies for the UK EITI reconciliation exercise.

The Oil and Gas Authority (OGA) Levy is in scope. From October 2015 the OGA 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.

Payments to The Crown Estate (TCE) in respect of rights to install and operate oil and gas pipelines across the foreshore are also in scope. Payments to the newly devolved Crown Estate Scotland will be disaggregated and included for the 2017 exercise.

### Mining & Quarrying

Mainstream corporation tax, extractive-related payments to TCE, the Coal Authority and monetary payments to Local Authorities as part of planning obligations are in scope. Again, for 2017, TCE and Crown Estate Scotland will be treated as two distinct entities.

### Beneficial Ownership

All companies incorporated in the UK now have to report under the People with Significant Control rules.

The UK EITI MSG agreed to incorporate beneficial ownership disclosure as an ongoing reporting requirement. Accordingly, companies reporting under UK EITI were asked to disclose their beneficial owners.

For all 58 reporting templates received, companies submitted a beneficial ownership form. A total of 15 of the companies which made material payments to the UK Government under UK EITI were privately owned.

### 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 are 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 data, these will be available on data.gov.uk. To the extent possible, these datasets will be published simultaneously with the UK EITI report.

Payments data from the third report were published simultaneously in open data format.

## Compliance

The reporting template was circulated electronically to 64 extractive companies at the end of August 2017. This included 42 oil and gas companies and 22 mining and quarrying companies. This figure was adjusted to 41 oil and gas and 20 mining and quarrying during the reconciliation exercise as three companies proved not to have made or received material payments during the 2016 calendar year.

Though provision of data is voluntary, the MSG did all that it could to ensure a comprehensive response. In addition to a number of follow-ups by the independent assessor, the Chair of the MSG wrote to the mining and quarrying companies that had yet to respond, encouraging them to do so. Industry representatives contributed to this effort.

Ultimately, a total of 41 oil and gas companies and 17 mining and quarrying companies participated in the compiling of the report. This equates to 100% of oil and gas companies and 81% of mining and quarrying companies. The MSG estimates that over 98% of relevant payments and repayments, by value, were captured in the exercise.

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

\* This section includes reference to the publication of the 3<sup>rd</sup> UK EITI report in April 2018. Although this falls outside of the time period covered by this report, the majority of the work carried out took place in 2017. Previously, references were made to the 2<sup>nd</sup> UK EITI report (published in 2017) in the 2016 Annual Progress report and the 1<sup>st</sup> UK EITI report (published in 2016) in the 2015 Annual Progress report.

### Objective

Recognise and support the principles set out in the 2013 EITI Standard.

In fulfilling this objective the MSG:

- Met five times in 2017 plus one “progress update” meeting.
- Ensured that the sector information was enhanced for the 3<sup>rd</sup> report.
- Agreed an updated reporting package for companies. This was issued by Moore Stephens in May 2018.

Enhance accountability to the UK public on the revenues from the UK’s extractives industries.

The third 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.

The MSG has accomplished the following in relation to this objective:

- The 3<sup>rd</sup> report provided an expanded and highly informative narrative on the social and economic aspects of the extractives sector in the UK.
- The 3<sup>rd</sup> UK EITI report was published on the UK EITI website on 30 April 2018.

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 3<sup>rd</sup> 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. Payments data from the third report were 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.

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

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, the UK's transposition of Chapter 10 of the EU Accounting Directive. For instance, the £86,000 threshold for payments under the Directive is mirrored for EITI.

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.

The MSG agreed to bring forward the 2017 process by making the reporting templates available at the end of April 2018, to help synchronise the EITI reporting process with the Reports on Payments to Governments Regulations.

DFID and the FCO regularly update UK Embassies on progress of the UK EITI.

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.

The EITI International Chair met the UK Chair and senior government officials in London in September 2017 to discuss opportunities for continued UK leadership of the global transparency agenda.

A member of the UK Secretariat attended the launch of the German EITI report and met members of the German secretariat in September 2017.

The (new) Chair attended the EITI conference on beneficial ownership in Jakarta, October 2017, joining a panel discussion and chairing workshops.

### 3. Assessment of performance against EITI requirements\*

\* This section includes reference to the publication of the 3rd UK EITI report in April 2018. Although this falls outside the time period covered by this report the majority of the work carried out took place in 2017. Previously, references were made to the 2nd UK EITI report (published in 2017) in the 2016 Annual Progress report and the 1st UK EITI report (published in 2016) in the 2015 Annual Progress report.

#### Requirements:

Effective oversight by the multi-stakeholder group.

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.

The key decisions made by the MSG in 2017 included:

#### **11 January 2017**

Agreement to publish the Open Data Policy paper on the UK EITI website and chase up the outstanding responses from in-scope companies for the reconciliation exercise.

#### **14 March 2017**

The MSG agreed to provide participating companies with an “embargoed” copy of the 2<sup>nd</sup> UK EITI report 24–48 hours before publication and final details were agreed for the launch event at the end of march in Aberdeen.

#### **31 March 2017**

2<sup>nd</sup> UK EITI Report launched by Margot James MP and Paul Wheelhouse MSP in Aberdeen in front of an audience of representatives from industry, civil society and government.

**17 May 2017**

Agreement to draft a paper on succession arrangements for civil society members and define terms and roles for alternates and observers/experts.

**18 July 2017**

Agreement that advice would be put to Ministers on the pros and cons of minimal Government intervention designed to avoid the MSG lapsing into abeyance as a consequence of challenges around the civil society constituency.

Agreement that a targeted approach to reporting should continue, the top 42 companies making payments to HMRC will be included in the 2016 process.

**26 September 2017**

It was agreed that future discussions should include both “mainstreaming” and the validation process.

Timely publication of EITI Reports.

The UK’s third EITI report was published in April 2018 and can be found at:

<https://www.gov.uk/government/publications/extractive-industries-transparency-initiative-payments-report-2016>

EITI Reports that include sectoral information about the extractive industries.

The sectoral information sub-group was responsible for drafting the sector information chapter for the 3<sup>rd</sup> EITI Report. Link to the report is above.

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.

The UK’s 3<sup>rd</sup> EITI report was published in April 2018. Compliance rates showed an improvement on the previous year with a 100% compliance rate for oil & gas and 81% for mining & quarrying. For the 2<sup>nd</sup> report these figures were 95% for oil and gas and 78% for mining and quarrying.

A credible assurance process applying international standards

Reporting template from companies had to be countersigned by a senior individual with the company to confirm that the figures provided were credible.

For the beneficial ownership template options for qualified and full attestation were made available to companies.

EITI Reports that are comprehensible, actively promoted, publicly accessible, and contribute to public debate.

The UK's third EITI report was formally published in April 2018 on the UK EITI website and widely promoted by industry, civil society and government.

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

No.	Title	Brief summary of recommendation	Updated status
<b>Recommendations proposed as a result of the reconciliation exercise for the 2014 year</b>			
1	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.	Government Agencies have submitted their 2016 receipts/repayments in Excel format for all extractive companies.
2	Register of licenses for the mining and quarrying sector	The MSG should discuss the possibility of requesting license 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
<b>Recommendations proposed as a result of the reconciliation exercise for the 2015 year</b>			
3	<b>Reconciliation scope:</b> Companies incorrectly included in scope	MSG should agree on a new methodology for the next UK EITI report for determining which companies are within scope. This will allow to avoid including non-material taxpayers or non-extractive companies.	<p>We made the following adjustments to the 2016 reconciliation scope:</p> <p><b>Oil &amp; Gas Companies:</b></p> <p>a. Scottish Power Plc has been excluded from the reconciliation scope as its RFCT paid was below the materiality threshold;</p> <p><b>Mining and Quarrying Companies:</b></p> <p>b. Compass Minerals - Winsford Salt Mine and Hargreaves Surface Mining Ltd have been excluded from the reconciliation scope as all Government Agencies have reported zero payment. These two companies were initially selected under Other Mining and Quarrying Companies/Groups.</p> <p>c. Irish Salt Mining and Exploration (ISME) has been added to the reconciliation scope based on its material CT paid to HMRC and following an advice from Department for the Economy in Northern Ireland.</p>
4	<b>Reconciliation scope:</b> Interest paid/repaid	HMRC should coordinates with the Account Office (a separate Service at HMRC) before submitting payment data to the IA in order to ensure that interest payments are included within this reporting.	Some reconciliation adjustments made were due to interest paid and repaid but not initially reported by HMRC.
5	<b>Reconciliation issues:</b> Lack of distinction between cash payments and offsets from previous years	HMRC should seek to make amendments to its data recording systems to enable the distinction between cash payments received during the year from offsets (allocation of previous over payments).	Some reconciliation adjustments made were due to offsets reported by HMRC without actual payment made by companies.

No.	Title	Brief summary of recommendation	Updated status
6	<p><b>Reconciliation issues:</b> Lack of distinction between ring fence CT and non-ring fence CT</p>	<p>HMRC should ensure that companies' payments distinguish RFCT from non-ring fence payments by using the current references so that the payment can be allocated to the appropriate tax stream.</p>	<p>Some reconciliation adjustments made were due to non-ring fence payments reported by HMRC.</p>
7	<p><b>Reconciliation issues:</b> Payments incorrectly reported by The Crown Estate</p>	<p>TCE should meet the deadline for data submission in order to achieve the reconciliation exercise on time. TCE is also encouraged to follow the UK EITI Guidance to disclose payment streams paid by all in-scope companies.</p>	<p>Besides the fact that TCE has submitted its data two weeks after the agreed deadline, payments made by five oil and gas companies were not initially reported.</p>

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

The UK's third EITI report was published in April 2018. The MSG will undertake a lessons learned exercise after the May 2018 meeting. The MSG will also evaluate the following recommendations made in the third report by Moore Stephens.

### Reconciliation issues

During the reconciliation exercise there were a number of discrepancies that arose due to a variety of different reasons:

- some licensees reported payments that were not licence fees or the OGA levy;
- some participants incorrectly reported payments related to Research and Development Expenditure payments, which fall outside the reconciliation scope;
- some payments and repayments of interest and APRT were omitted.

These discrepancies were identified and reconciled.

***It was recommended that the MSG considers updating the guidance notes and adding payment definitions in the reporting templates for 2017. (The templates and guidance notes were updated to include this information for the 2017 process.)***

### Implementation of automated online disclosure

According to EITI Requirement 7.2.c, the MSG is encouraged to consider automated online disclosure of extractive revenues and payments by Government Agencies and companies on a continuous basis.

HMRC, the main Government Agency involved in the reconciliation exercise, does not publish its payments/repayments due to taxpayer confidentiality issues.

The MSG should be encouraged to explore opportunities to disclose data as soon as practically possible, for example through continuous online disclosures or, where possible, by publishing additional, more recent, non-financial EITI data than covered by the accounting period.

***It was recommended that the MSG considers:***

- ***unilateral disclosure by Government Agencies;***
- ***agree on the frequency of the automated online disclosure;***
- ***a study to obtain full understanding of the technical abilities of the reporting entities;***
- ***a study to obtain full understanding of the legal obligations of the reporting entities.***

## Late and no submission of templates

50 out of 61 companies submitted their reporting template on or before the agreed deadline of six weeks as detailed below:

Sector	In-scope companies	Submission on time	Late submission	No submission
Oil & Gas	41	37	4	-
Mining and Quarrying	20	13	4	3
<b>Total</b>	<b>61</b>	<b>50</b>	<b>8</b>	<b>3</b>
<b>%</b>	<b>100%</b>	<b>82%</b>	<b>13%</b>	<b>5%</b>

For other companies frequent follow up by telephone calls and emails were required to obtain completed reporting templates.

As a result of non-submission of the reporting templates by the three mining and quarrying companies, it was not possible to confirm the totality of receipts reported by the Government Agencies.

***It was recommended that the MSG considers an awareness raising event e.g. a webinar.***

## 6. Costs of implementation

BEIS EITI Secretariat consisted of 2 full time members of staff who work on EITI and the Chair.

The totalled figure from the civil society members that reported activity came to 95 days.

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

Government representatives work an estimated 132 days a year on EITI matters.

BEIS contracted Moore Stephens to undertake the reconciliation on behalf the MSG.

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

There were 5 meetings of the MSG in 2017 plus one “progress update” meeting. For details of minutes and attendance please see:

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