International Association of Oil & Gas Producers

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IOGP input to the Impact Inception Assessment on the Commission's Delegated Regulation on taxonomy-related disclosures by undertakings reporting non-financial information

Introduction

The International Association of Oil & Gas Producers' (IOGP) member companies account for approximately 90% of oil and gas produced in Europe. IOGP supports the goals of the Paris Agreement and the EU's objective of climate neutrality by 2050 supported by adequate policies. One of them is a well-designed and inclusive sustainable finance framework.

We welcome the EU's efforts to establish a set of coherent and consistent policy tools that will unlock private investments required for projects and technologies aimed at reducing greenhouse gas (GHG) emissions, and support the transition to a sustainable future. Access to finance is critical for those investments and thus to maintain European competitiveness.

IOGP congratulates the European Commission for the progress made in establishing a taxonomy for sustainable investments and appreciates the opportunity to provide this early input to the development of the Delegated Regulation on taxonomy-related disclosures by undertakings reporting non-financial information. This upcoming delegated act will be crucial for all corporates, including the oil and gas companies, to comply with the disclosure provisions during the forthcoming years.

In this context, we take this opportunity to share our initial input to the ongoing work of the Commission:

1. Set workable timelines to achieve comprehensible reports

IOGP recognises and is supportive of the need for transparency on issues related to climate change and sustainability. Our members currently disclose information on these issues, according to different regulatory requirements (e.g. NFRD - Non-Financial Reporting Directive) and voluntary standards (such as the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and IPIECA-IOGP-API Guidance on sustainability reporting[1]), by publishing financial and operating reports, summary annual reports, sustainability reports and individual company position papers. According to the recently published study on directors' duties and sustainable corporate governance, the oil and gas sector is relatively advanced in terms of the identification and the management of their sustainability risks and impacts compared to other industries[2].

Given the oil and gas industry's experience in gathering and disclosing non-financial information (e.g. sustainability risks and performance), we note that reporting on taxonomy-compliant activities will require companies to review their processes and establish new systems and reporting functionalities. Furthermore, new internal practices enabling data collection and processing, verification, and potentially assurance will need to be introduced. All these activities will likely create additional external and internal costs. Together with the timing of the upcoming delegated acts on the technical screening criteria for mitigation and adaptation by end 2020, and on the disclosure obligation by mid-2021, it will be

[1] https://www.ipieca.org/news/launch-of-updated-global-sustainability-reporting-guidance/
[2] Study on directors' duties and sustainable corporate governance (study here, Annex I here, Annex II here)

extremely challenging to meet disclosure obligations for the financial year 2021 in the course of 2022. To manage the currently envisaged timeline, which is too short for guaranteeing quality and cost-effective implementation for all, we suggest a phased-in approach with the explicitly recognised voluntary opt-in period in the first couple of years. The adaptation for timely compliance will additionally be affected by the implications of the COVID-19 pandemic with its impact on economics and human resources.

We fully recognise the necessity to advance measures to drive the sustainable transition and acknowledge that we need to continue to enhance environmental transparency and disclosure. However, to ensure that the Taxonomy Regulation works in practice and will achieve its objectives, we call on the European and national authorities to support the industry in the implementation and enforcement of these very new rules and requirements.

One of the options to ensure flexibility is to extend the timeline for the disclosure obligation or retain the principal of one or two pilot years[3] (for example, for the disclosure of information on the taxonomy-compliant activities focusing on climate change mitigation & adaptation). **This phased-in approach could be deployed until all delegated acts on six environmental objectives are adopted by the EU institutions**. We believe this would ensure a smooth implementation of all delegated acts stemming from the Taxonomy Regulation and create robust and meaningful corporates' reports that would be useful to financial market players and other stakeholders for their decision making processes.

2. Ensure coherence between different tools

We would like to stress the importance of ensuring alignment across existing and upcoming legislation: e.g. the Disclosure and Taxonomy Regulations (Regulated Technical Standards (RTS) and Delegated Acts), the European Ecolabel initiative, Non-Financial Reporting Directive and future initiatives like the Sustainable Corporate Governance, potential due diligence obligations, and the upcoming Renewed Sustainable Finance Strategy. Therefore, **we call on the Commission to introduce a clear policy planning framework with well-sequenced, realistic timelines**. Predictable and stable policy frameworks and transparent communication to stakeholders will be vital in helping reorient investments towards more sustainable technologies and in building a well-functioning sustainable finance framework.

3. Adopt a flexible approach and include indicators for specific transitional activities

Companies must comply with local regulation, as well as analyse and identify any need for other non-financial disclosures based on their stakeholder community. Investors will also turn to companies to fulfil their own new reporting obligations about the environmental and social impacts of their investments, e.g. under the Disclosure Regulation. Therefore, the upcoming delegated act should focus on minimum requirements, rather than being too prescriptive and potentially duplicating indicators.

Furthermore, as there is a high risk of increased costs related to the new requirements, the disclosure and calculation of indicators like CapEx, OpEx and turnover should allow for a degree of flexibility. We believe it would increase the transparency of the transition if corporates were invited to list all of their transitional activities[4]. **Transitional activities play a crucial role in helping the EU to deliver its climate and energy objectives. Therefore, clear guidelines for the reporting on transitional activities should be provided.**

4. Adequate impact assessment and adherence to the Better Regulation principles need to be guaranteed

We highly appreciate this early opportunity to provide input to the upcoming delegated act. IOGP believes that its success will further depend on the Commission's application of other Better Regulation tools such as a detailed and data-driven impact assessment. As pointed out in the recent Court of Auditors' publication "Law-making in the European Union after almost 20 years of Better Regulation"[5], there is a need to improve the evidence base for decision-making and application of EU law. **For this reason, we call on the Commission to carry out a detailed and guided-by-experience impact assessment.**

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[3] For example, companies were given three years to implement IFRS 16.

[4] For further information on transitional activities, please refer to our response to the IIA on "Commission Delegated Regulation on a climate change mitigation and adaptation taxonomy" https://www.oilandgaseurope.org/wp-content/uploads/2020/04/IIA-Taxonomy-paper.pdf & presentation of the role of natural gas as transitional and enabling activity https://www.oilandgaseurope.org/wp-content/uploads/2020/04/The-role-of-natural-gas-in-the-context-of-the-EU-Taxonomy-transitional.pdf.

[5] https://www.eca.europa.eu/en/Pages/NewsItem.aspx?nid=14115

The Commission's Impact Inception Assessment on the delegated act on taxonomy-related disclosures states that undertakings under the scope of the NFRD, which is also going to be reviewed, would probably have to face additional costs to comply with the delegated act on taxonomy-related disclosures. That additional administrative burden will be introduced for companies at a time when the same involved staff needs to address many more requirements (see section 1 above on workable timelines).

We, therefore, encourage the Commission to reflect on the "'One-In, One-Out' (OIOO) principle "to cut red tape" in the upcoming impact assessment.

We believe this will be in line with the aspiration of the President of the European Commission, Ursula von der Leyen, to ensure that "every legislative proposal creating new burdens should relieve people and businesses of an equivalent existing burden at EU level in the same policy area".

Final remarks

IOGP supports the EU's efforts to establish a set of coherent and consistent policy tools focusing on sustainable finance that will unlock private investments required for projects and technologies aimed at the energy transition. Nevertheless, this requires precise policy planning, with realistic and well-sequenced timelines.

Given the administrative burden and short deadline, the upcoming delegated act should allow for a degree of flexibility for corporate disclosure processes.

The oil and gas industry remains open to engage in the dialogue with the Commission on the design, benefits and challenges related to the implementation of the delegated act on taxonomy-related disclosures by undertakings reporting non-financial information.

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