

IOGP Europe views on the EU corporate sustainability reporting framework

The International Association of Oil and Gas Producers Europe (IOGP Europe), whose Member Companies account for approximately 90% of oil and gas produced in Europe, supports the goals of the Paris Agreement and the EU's ambition to reach climate neutrality by 2050. We are committed to providing input and expert advice to the EU institutions, member state governments, and the wider community, to contribute in a constructive and proactive way to the development and implementation of EU policies and regulations.

1. Overview

Investing to make a difference

To achieve the EU's net zero objective by 2050, the existing complex energy system will require significant investment. In fact, it is estimated that around **10 trillion EUR of investment will be needed from 2022 until 2030** to achieve the EU's 2030 climate targets and to reduce dependence on Russian fossil fuels¹. This amount of investment is approximately equal to the annual GDP of Germany, France, Italy, and Spain combined. Most of it will come from private investment.

The more the EU can steer investment towards the **most cost-effective** pathways to net zero emissions, the more it is likely to drive decarbonisation at large while ensuring affordability for consumers and the industrial base across Europe.


More precisely, significant investment in **all zero and low carbon energy sources** and **all technologies** that can contribute to reducing greenhouse gas (GHG) emissions will be required. Becoming climate neutral means reducing GHG emissions as much as possible, but it also means addressing any remaining emissions, while preserving the industry's research, development, investment, and jobs in Europe.

Supporting transparency

IOGP Europe acknowledges the growing needs and expectations of stakeholders for more transparency and communication on business activities and their impacts on climate, environment, social and governance issues, amongst others.

Our industry supports the EU objective for meaningful corporate sustainability reporting policies, and believes that effective non-financial reporting may be helpful to our investors, as much as broader societal stakeholders, such as the communities where we operate.

¹ [Statement of Fabio Panetta](#), Member of the Executive Board of the ECB in July 2022, and based on the data from European Commission (2021), "Commission staff working document: Impact assessment report"; and European Commission (2022), "Towards a green, digital and resilient economy: our European Growth Model".



IOGP Europe welcomes European Commission President Ursula von der Leyen's speech to the European Parliamentary Plenary on the preparation of the of the European Council Meeting of 23-24 April, where she announced that the Commission will put forward proposals to simplify and significantly reduce reporting requirements for companies by 25%, highlighting that all the new reporting requirements go against this goal².

The international context must be considered, to ensure that companies operating in Europe and aiming to invest in zero- or low-carbon technologies have sufficient access to capital and a stable regulatory framework to conduct operations in the long term. In this context, the effects, of the increased competition for capital created by the passage of the Inflation Reduction Act (IRA) in the United States must be considered.

Mitigating risks to competitiveness

The EU's legislative proposals for corporate sustainability reporting, parts of which are still in the making, create an overly complex framework that may create disproportionate legal exposure, isolate companies subject to EU law from the global playing field, and lead to confusion on the part of those reading or using the published information. In this respect, we highlight the potential loss of competitiveness for European companies as a result of reporting overload and the public availability of detailed business data.

Moreover, the data to be disclosed under the EU corporate sustainability reporting framework is immense, with various legal gaps and uncertainties still to be addressed.

Below are some of the key issues:

- **Complexity:** The multitude of reporting requirements on international, European, and national levels is very challenging to navigate for multinational companies with global operations and complex value chains, as well as those stakeholders who may read the reporting.
- **Duplication:** Number of overlapping requirements (e.g., transition plans) incorporated in various EU legislative frameworks.
- **Science:** Lack of existing methodology to ensure consistent data collection, assessment, and reporting (e.g. methane intensity targets and biodiversity targets for which no historic data sets exist, and consequently there is no baseline).
- **Timeframe:** Very short timeframes for implementation that may result in incomplete or poor quality data being reported, that may also need to be updated over time, leading to liability concerns.

Our recommendations

We call on the European Commission to improve the architecture of the EU corporate sustainability reporting framework, focusing on simplification, avoiding duplication, adhering to methodologies based on climate science and unquestionable standard-setting governance, and providing well-sequenced, realistic timelines.

General recommendations include:

- **Harmonisation with international standards.** IOGP Europe Member Companies operate in several jurisdictions and have complex, global value chains. Therefore, ensuring harmonisation, or at least mutual recognition, of the EU corporate reporting requirements with international standards is essential to avoid double reporting.
- **Flexibility to report on materiality.** Companies should be afforded adequate flexibility to report on issues material to their portfolios and operations. It is essential that the reporting criteria are clear, coherent, and provide sufficient time for the collection of extensive data and the organisation of internal controls processes.
- **Granularity.** Reporting on a very granular level creates an enormous administrative burden and cost on companies to report. These requirements should be carefully evaluated to ensure the effort required produces the desired benefits.

IOGP Europe acknowledges that the EU corporate sustainability reporting framework is a blueprint on a global scale. However, this framework still needs continuous improvements to ensure consistency, interoperability, and globally-coordinated action in sustainability reporting frameworks.

² Speech by President von der Leyen at the European Parliament Plenary on the preparation of the European Council meeting of 23-24 March 2023 [accessed on 21 April 2023 under this link: https://ec.europa.eu/commission/presscorner/detail/en/speech_23_1672]

In the specific subsection, we will provide more detailed recommendations regarding the specific legislative files: the Corporate Sustainability Reporting Directive (CSRD), the European Sustainability Reporting Standards (ESRS) that are being developed under CSRD, and the Taxonomy Regulation and its Delegated Acts.

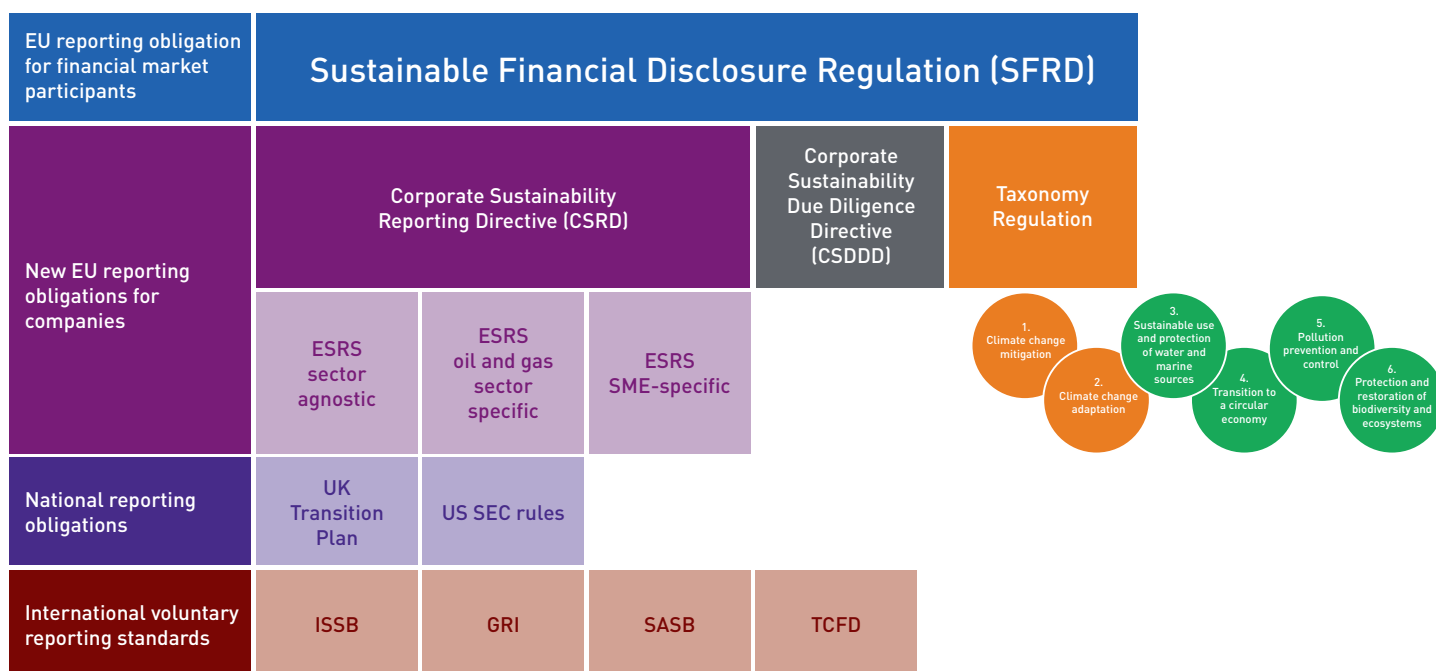


Figure 1: The EU corporate sustainability reporting framework

2. Corporate Sustainability Reporting Directive (CSRD)

The case for reporting harmonisation

Many IOGP Europe Member Companies have published or are working towards the publication of transition plans. Companies that are in scope of the CSRD are now required to publish their transition plans in line with detailed requirements, on a comply or explain basis. Companies may also choose to publish a transition plan in direct response to investor interest.

These plans will be designed to provide insight into the business model and strategy of the undertaking. They will also give insights into companies’ transition to a sustainable economy in line with the Paris Agreement.

The idea of ‘transition plan’ can already be found in existing and proposed EU legislation, as well as numerous international frameworks, national legislation, and market level initiatives, which adds to the complexity of designing and implementing a single “transition plan”.³

Furthermore, every IOGP Europe Member operating in Europe has a unique business set of assets and operations in its portfolio, with its own strategic approach, meaning the form and pace of the transition will be different across the sector.

For an oil and gas company, the transition will generally focus on:

- Supplying traditional oil and gas products, with a low carbon intensity, to meet current and mid-term demand
- Supplying low carbon energy options such as renewable energy, low-carbon fuels (biofuels, hydrogen) and electric charging, to help consumers and businesses reduce their own carbon footprint
- Supporting the decarbonisation of other sectors through the scaling-up of Carbon Capture and Storage (CCS) technology
- Creating natural carbon sinks to offset hard-to-abate emissions
- Investing in and developing renewable technologies such as wind, solar, hydro, and geothermal energy

³ A detailed table with all key initiatives that refer to transition plans can be found in Annex I.

Avoiding duplication and reporting conflicts

With the disclosure of transition plans under the CSRD, stakeholders will be able to monitor the progress of a company regarding its commitments towards transition, activities to lower carbon footprints, as well as investment in new technologies.

The Corporate Sustainability Due Diligence Directive (CSDDD) also most probably will include provisions mandating the adoption of transition plans. While efforts are being made to align the text of the CSDDD with the CSRD in relation to transition plans, we remain concerned by the risk of duplication where companies may be subject to competing requirements with different wording.

We are also concerned that there is a risk of creating new obligations for companies to draw up transition plans with prescriptive requirements that conflict with the European Sustainability Reporting Standards (ESRS).

Moreover, these plans may also conflict with the plans of non-EU jurisdictions. Finally, it is important to note that some national governments are not in the position to address environmental protection in a vacuum, but rather must balance it with affordability and reliability.

Our recommendations

- **Harmonise transition plans according to CSRD.** The CSRD is a starting point for harmonization of transition plans at an EU level. It is essential that coherence with other legislative frameworks is maintained and that disclosure requirements are clear and consistent. Therefore, any reference to transition plans within CSDDD, or any other future legislation, should mirror exactly the CSRD language, in order to avoid duplication and inconsistency.
- **Ensure alignment on transition plans at the international level will help achieve global compatibility and will limit double reporting.**

3. European Sustainability Reporting Standards (ESRS)

Companies reporting under the CSRD will need to use the ESRS, which are currently being developed by the European Financial Reporting Advisory Group (EFRAG). The standards will outline requirements for detailed corporate reporting on a broad range of environmental, social and governance (ESG) issues.

Sector-agnostic ESRS

Setting realistic deadlines

The first set of draft ESRS proposed by EFRAG included over 1,000 quantitative and qualitative datapoints⁴. Although the objective is to enrich and harmonise the data disclosure among the companies, these detailed and prescriptive requirements place a significant burden on companies to report on an enormous amount of data within a very limited timeframe.

Improving consistency with CSRD

We are concerned as the text of the first set of draft ESRS often moves beyond the requirements of the CSRD. For example, the CSRD refers to the Paris Agreement only, while the ESRS refers to both the Paris Agreement and to future international agreements on climate change which do not exist today. Another notable example of legal uncertainty regarding transition plans is that the ESRS go beyond the notion of “compatibility” (“*business model and strategy are compatible with (...) the limiting of global warming to 1.5 °C*”), using expressions such as “in line with” or “aligned with”, which have a distinct meaning. In the same vein, the mandate given by the CSRD does not extend to regulating company net-zero targets, such as by setting out the minimal percentage to achieve GHG emission reduction before being allowed to “neutralize”, or offset, residual emissions.

⁴ EFRAG, 'EFRAG's Cover Letter on the Cost-benefit analysis of the First Set of draft ESRS' (2022) [First Set of draft ESRS - EFRAG](#).

Limitations to data reporting

IOGP Europe is also concerned about the obligation to report on physical and transitional risks along the value chain, as often such information is controlled by third parties and not fully accessible or verifiable by IOGP Europe Member Companies. Care should also be given to ensure Small and Medium Enterprises (SMEs) in the supply chain do not suffer unintended consequences due to a lack of capacity to provide the requested data.

More generally on the value chain: the ESRS should not include provisions relating to the scope or modalities of sustainability due diligence, as these matters will be governed by the CSDDD.

According to drafts presented by EFRAG, the sector-agnostic and sector-specific ESRS **propose disclosure of data for methodologies and KPIs that do not exist yet or are at very premature stage of development**. For example, there is no commonly accepted methodology for transition plans that are compatible with Paris Agreement. Additionally, reporting financial information, when companies use different methodologies, would result in incomparable information.

Where existing methodologies are mentioned in the ESRS as potential guides, such as for companies to derive emission reduction factors, it should be made more explicit that such mentions are solely illustrative.

In this first phase of implementation, it should also be noted that the KPIs related to the financial metrics associated with risks and opportunities will be premature.

Sector-specific ESRS

Complexity for companies operating in several sectors

Although sector-agnostic ESRS already require a very granular and prescriptive data disclosure, **the additional sector-specific ESRS create a second layer of an already complex reporting framework**.

Conceptually, it is logical to require from companies in specific sector to report additional information that are unique for that sector. However, many large companies, including IOGP Europe Member Companies operating in Europe, have an enormous number of different entities in various sectors across the globe. Therefore, it is challenging to assign one sector-specific ESRS to those companies. A potential complication is that those companies will have to report under the sector-agnostic ESRS, and several different sector-specific ESRS, which will be extremely complex and burdensome.

Harmonisation and lack of methodologies

Harmonisation with existing international and sector-agnostic standards should be a priority for sector-specific ESRS, including harmonisation with Ipieca-IOGP-API's joint publication, *Sustainability reporting guidance for the oil and gas industry*. The guidance provides direction on the content of a typical industry report by covering 21 sustainability issues and 43 indicator categories. These issues and indicators have been selected based on industry consensus, together with significant insights and suggestions from an independent panel of stakeholders with expertise in the sector and sustainability reporting.

As mentioned previously, there are currently no commonly accepted standard protocols to incorporate direct methane measurement into the quantification of emissions factor-based inventories. Careful consideration is necessary to avoid duplication and/or inconsistency relating to methane emission reduction plans.

Our recommendations

- **Ensure that the ESRS remain consistent with the provisions of the CSRD and are aligned as much as possible with international standards (GRI, SASB, IAS, TNFD, ISSB), in order to increase harmonisation.** Regarding sector specific ESRS for oil and gas, we recommend alignment with Ipieca-IOGP-API's *Sustainability reporting guidance for the oil and gas industry*.
- **Avoid overlaps with the CSDDD and with other legislation addressing climate change.**
- **The disclosure of physical and transition risks along the value chain should be limited to tier one suppliers.**

- **KPIs that do not yet have a consolidated methodology, or that are not widespread, should be defined, tested, and commonly used before including such information in the management report, and only then should the report be subject to third party assurance.** It would also be useful to envisage, at least initially, a voluntary phased-in approach and gradually make the methodologies mandatory and audited when these are consistent between the various companies.

4. Taxonomy regulation and its delegated acts

IOPG Europe acknowledges the EU Taxonomy, which defines a list of environmentally sustainable economic activities, with the goal of directing investment towards these activities.

While criteria have been established for the first two environmental objectives under the Taxonomy, the criteria for the remaining four environmental objectives are to be approved in June 2023 by the Commission, and subsequently interpreted and implemented in just a few months, as they have to be reported already in early 2024.

Our Members are working intensively to implement these complex reporting obligations within a short preparation time. Understanding and applying this new regulation through the production, collection, and verification of data through companies' processes has already required significant amounts of resources and the extent to which the information published is decision-useful for the investment community remains unclear.

The key challenges with the Taxonomy framework are narrow financial definitions that exclude some low-carbon and renewable technologies, complex screening criteria that limit usability and applicability, and lack of clarity that leads to overall confusion and results in misreporting.

We refer to lack of clarity on for example how the EU standards should be applied to non-EU assets or whether material equivalence is sufficient to comply with some technical screening criteria.

IOPG Europe welcomes the Commission's efforts to provide clarity on the Taxonomy's provisions through the publication of FAQs. However, we believe that there are still numerous questions of interpretation that should be addressed in order to guide companies in the reporting exercise. IOPG Europe remains ready to support the Commission's work on this front where possible.

All of these factors underestimate the total investment of the oil and gas sector in activities that reduce the carbon intensity of products and processes. These factors also have an impact on the comparability of data between companies within our sector and between sectors.

Our recommendations

- **Develop a linkage principle that allows companies to recognise important parts of the value chain that are currently excluded from the EU Taxonomy activity definitions.** This ensures more complete reporting and more consistency with existing financial disclosures.
- **Revise the definition of the financial KPIs so that they better align with companies' financial statements:**
 - **Turnover:** allow companies to follow the IFRS definition of revenue
 - **Capex:** include goodwill in the Capex definition
 - **Opex:** discard the Opex KPI or allow companies to follow the definition used in their financial statements
- **Simplify the technical criteria and clarify how they should be applied to assets outside the EU, for example it is currently impossible for companies to determine how references to EU legislation and standards in the criteria should be applied to assets outside the region.**
- **Clarify interpretation issues to minimise differences in data caused by differing approaches to implementation.**
- **Refrain from elaboration of any additional reporting requirement (e.g., Extended Taxonomy) as this would only increase the complexity of the existing framework and would harm the usability of the Taxonomy for investors.**
- **Design any new rules in an inclusive manner and ensure the stability of the regulatory framework.**

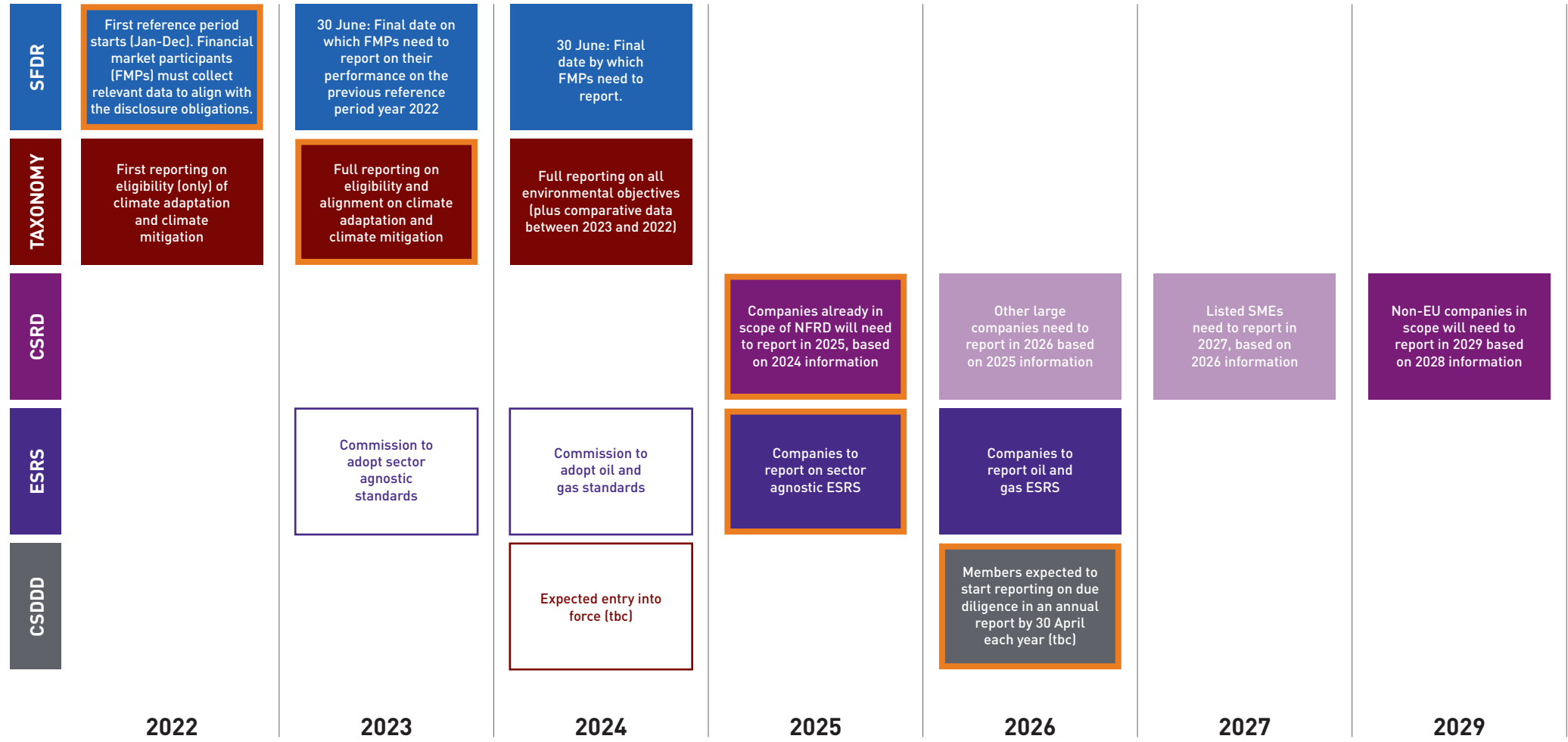
Annex I

Targets and transition plans landscape

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|---|---|
| Multilateral | <ul style="list-style-type: none"> UN High Level Working Group OECD Guidance on Transition Finance G20 Sustainable Finance Working Group |
| EU: Existing texts at corporate level | <ul style="list-style-type: none"> Benchmark Regulation Corporate Sustainable Reporting Directive (CSRD) EU Taxonomy Regulation, Article 8 |
| EU: Texts under negotiation at corporate level | <ul style="list-style-type: none"> Corporate Sustainability Due Diligence Directive (CSDDD) Draft ESRS (E1 and E4) Solvency II EU Green Bond Standard Regulation Recommendation for an Extended Taxonomy (shelved) |
| EU: Texts under negotiation at site level | <ul style="list-style-type: none"> Industrial Emissions Directive (IED) |
| National | <ul style="list-style-type: none"> UK Transition Plan Taskforce US SEC (under public consultation) Japan Clean Energy Strategy & Basic Guidelines on Climate Transition Finance (non-binding) |
| Banks | <ul style="list-style-type: none"> Net Zero Banking Alliance Transition Finance Guide |
| Market | <ul style="list-style-type: none"> International Sustainability Standards Board (ISSB) Science Based Targets Initiative Glasgow Financial Alliance for Net Zero Transitional Pathways Initiative (asset owners and asset managers initiative) Climate Bonds Initiative |

Annex II

Implementation timeframe of the EU corporate sustainability reporting framework – key legislative files



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