

Rationalisation of reporting requirements

IOGP Europe supports the European Commission's consultation aimed at identifying and streamlining reporting requirements in numerous EU legislations. This is in line with what was announced in the speech of the President of the European Commission, Ursula Von der Leyen, in March 2023.

Whilst we acknowledge the importance of this initiative, we have sought to identify key challenges affecting the upstream Oil and Gas industry: our response presents suggestions to EU decision-makers, while emphasizing the need for improved alignment with the Better Regulation principle. We primarily addressed Taxonomy application obstacles, CSRD implementation challenges and we underlined the broader spectrum of sustainable efforts employed by our member-companies towards reaching net-zero.

QUESTION:

How much time and resources are devoted generally to fulfilling the reporting requirements? Please detail to the extent possible the hours per month/year or the full-time equivalent staff needed to fulfil them. Are these requirements only originating from EU law?

IOGP EUROPE FEEDBACK:

Introduction and contextualization:

IOGP Europe supports the European Commission's overall goal of regulating the transition through a structured and detailed EU reporting framework and is incessantly working to comply with all the requirements and obligations arising from it. However, despite acknowledging the invaluable contribution of all the initiatives and legislation currently in place, IOGP Europe would like to make some comments related to the overall usability of the framework. Concretely, we identify some major points as primarily problematic for the O&G industry, and we would like to highlight them to decision-makers for them to intervene in the aim of smoothing the implementation:

- 1) In general, the burden placed on the reporting O&G companies is massive, and the added value for the decision-makers is often questionable due to the large amount of information collected. Consequently, the streamlining of the reporting framework would be convenient for both the O&G sector and the decision-makers.
- 2) Harmonization with international standards is paramount to make the EU reporting framework usable. The preferred solution for this would be alignment with global disclosures to reduce the workload for companies as several companies within our industry have dual listings and are subject to different reporting frameworks.

3) Given the complex business model of the O&G industry, two major elements should be considered when conceiving reporting obligations for the industry:

- Materiality assessment needs to be at discretion of the company at issues; It should be clarifying that company specific descriptions, groupings and numbering can be applied for material topics and sub-topics under ESRS 1 based on relevance for the companies, as for the financial disclosure under IFRS.
- The reporting at group level for most of the requirements is the best way not to overexpose companies to the unrealistic obligation of being held accountable for the whole value chain.

IOGP Europe will provide comments below on significant pieces of legislation, but the focus of this response will be on the reporting obligation falling under the sustainable finance framework, these recognized as primary to be streamlined.

As a general principle, IOGP Europe would like to stress that working hours utilized depend on the complexity, size, and the different jurisdictions a company is subject to as well as on how many of the existing requirements they are subject to, which are usually many. Therefore, given the complexity of the industry we represent, and the several legislations our companies are subject to, IOGP Europe believes national/ regional standards should consider – and pursue harmonization with and across – other jurisdictions' equivalent standards as well as the international frameworks and standards that exist or are already proposed. This will help to enable companies that have multinational presences to operate efficiently and improve comparability and usefulness of disclosures (see question 7 below).

Specifically, the reporting requirements that we would like to comment on pertain to the legislation listed below:

- CSRD/ESRS
- Taxonomy Regulation
- CBAM
- IED/IEP

CSRD:

Typical IOGP Europe member company shared that the estimates for reporting only scope 1, 2, and 3 emissions at a level of reasonable assurance are \$35 million (approx. EUR 32 million) over the first five years, with recurring costs of approximately \$4 million (approx. EUR 3.68 million) and 17.5 full-time equivalent staff. Considering that the proposed standards are roughly triple the number of metrics compared to what we presently track, the estimated incremental cost to implement the CSRD exceeds \$50 million (approx. EUR 45.97 million), with recurring costs of an additional \$10 million per annum (approx. EUR 9.19 million). For social requirements, there is a sense that between 3 and 5 FTEs may be needed – this being however a rough assessment. CSRD is the most comprehensive ESG disclosure in the entire world.

Furthermore, huge burden related to the implementation of CSRD could also arise from the sector-specific European Sustainability Reporting Standards (ESRS), which could double the effort to comply with CSRD-sector agnostic ESRS. Therefore, it is central for IOGP Europe to ensure that the sector-specific standards will create a substantial added-value to the existent ones, this being now limited due to several reasons:

- Some disclosure requirements are redundant (or too granular). Example of methane in O&G ESRS: methane is part of the GHG and will be disclosed already via the sector agnostic ESRS (for the relevant business segments). Methane actions will also be disclosed in the next few years when implementing the new EU methane regulation, for the activities where methane emissions are material.

Taxonomy Regulation:

We consider that several disclosure requirements included in the EU Taxonomy Regulation could be modified or removed without undermining the related policy objectives. The following requirements imply time and costs for preparers without always involving game-changing outcomes for the users of the disclosures. The contentious reporting requirements we would like to highlight here follow:

Removal of the KPI on OpEx:

The calculation of the OpEx KPI as defined by Taxonomy is particularly costly as the input is not extractable from the current software systems which creates challenges both with regards to data quality and comparability between companies.

As regularly proposed during previous consultations, we consider that the calculation and disclosure of the OpEx KPI should remain optional. This KPI is not used by the users of the Taxonomy disclosures and not included in the calculation of the Green Asset Ratio.

Removal of the disclosure requirement for total amount of aligned Capex incurred as part of a CapEx Plan:

This requirement is included in §1.2.3.2 (c) of the Disclosures Delegated act. The calculation of this amount is still subject to interpretation and can be very difficult as the issuers need to split the CapEx between those related to assets commissioned during the year and those still in construction.

Removal of specific tables added by the 2022 Complementary Delegated act on gas and nuclear activities:

The information included in these tables is either (i) already communicated within the main mandatory Taxonomy tables, or (ii) will become mandatory with the CSRD (specifically for non-eligible gas-related activities).

Introduction of materiality in the Taxonomy for KPI calculation:

The total absence of materiality analysis within the Taxonomy Regulation is difficult to understand as it is not in line with the CSRD. The disclosure of the KPI is mandatory for every issuer, but the calculation of these KPIs should include a materiality assessment to avoid the analysis of micro-activities, with a very limited impact on consolidated ratios. In addition to the burden incurred by the issuers, this will highly complicate the mandatory review of the external auditors. A solution could be the inclusion in the Regulation of the answer to FAQ n°13 (20.10.2023) "Is there any minimum turnover, CapEx and OpEx threshold below which undertakings are not obliged to report Taxonomy-eligibility or alignment of their economic activities ('materiality thresholds')?"

CBAM reporting:

It is applicable within the EU only. As the reporting requirements have just entered into force and the 1st report is expected by the end of January 2024, we assess that the following resources will be needed to obtain and expedite the import reports from brokers, transform and format the reports to be able to extract relevant data: 1 FTE for 3 or 5 days a month per each EU country. It is still unclear if EU national competent authorities introduce e.g., audits or if CBAM reports will need to be delivered to the customs authorities.

EPRT (future IEP) regulation:

Annual reporting 2-5 days per year for an operational site (data compilation + quality check + submission via the website). This is additional to the permit reporting for the local regulators (2-3 weeks/year). The data collection across the year (measurements) takes 1-3 days per month (site personnel or outsourced to 3d party)

Chemical Management System in IED:

Tracking the volumes and the path of all substances in an industrial installation requires at least 1 full-time person per year and has very limited benefit. The environmental risk is covered by the permit and the health risk (to workers) is covered by the occupational health regulation. If a substance needs to be replaced in each use, this is foreseen in the REACH process.

QUESTION:

Are there specific areas (type of reporting requirements or policy areas) that are particularly problematic?

IOGP EUROPE FEEDBACK:

With the aim of ensuring a smooth and effective implementation, IOGP Europe calls for stronger alignment with the Better Regulation's principles, providing for clarity and comparability of the entire reporting framework through templates and guidance documents.

Regarding the structure of reporting, IOGP Europe would like to raise some points about the following EU legislation:

- 1) CSRD/ESRS
- 2) Taxonomy Regulation
- 3) CBAM

CSRD/ESRS:

IOGP Europe comments on the structure of sustainability statements:

We would like to take this occasion to invite the Commission to consider some adjustments to the existing framework. Specifically, we propose the sustainability reporting to be an integrated part of the companies' general purpose financial report ("Annual Report") and not isolated to a separate section of the management report. In article 29a to the CSRD Directive, it is currently stated "*The information referred to in the first subparagraph shall be clearly identifiable within the consolidated management report, through a dedicated section of the consolidated management report*". This would require companies to have two separate narratives when commenting on enterprise performance (financial and sustainability) in different sections of the report, rather than the flexibility to disclose performance in an integrated manner. We propose that the approach of the ISSB is chosen where in the IFRS S1 it is stated "*An entity is required to provide disclosures required by IFRS Sustainability Disclosure Standards as part of its general- purpose financial reports*". This solution could also facilitate that certain voluminous reporting requirements (listings, tables etc) could be placed in an appendix to the report rather than obstructing the usefulness of an otherwise to lengthy management report. The option to have certain information at a data hub (@company.com), still subject to the same assurance requirements and clearly linked from the management report, and not part of the management report itself, could further facilitate and support a more relevant and user-friendly report.

On the collection of data points throughout the value chain:

To secure quality and comparability in the reported information, it is essential that common understanding and methodology is applied. Since many of the required data point is new or not commonly used or defined there will be a huge challenge to retrieve this information from sources that either are:

- Not subject to CSRD or similar requirements and do not have processes in place / or intent to provide the data
- Companies with intent to provide data, but lack capacity or competence to collect and prepare the data and
- Companies with capacity and competence but apply different methodologies or assumptions. Companies then need to analyse and adjust (challenging) to provide a consolidated number in the report that we would be held accountable for and in the end obtain reasonable assurance. Focus in the first few years should be on disclosing data that the company has certain level of control, i.e. through operational control

About specific requirements under CSRD:

The need to report on some pollutants (CSRD ESRS E2) like microplastics (1) and substances of concern (2) is highly problematic for several reasons:

- First, there is no standard methodology;
- Secondly, the definition and scope are still being finalized. Reporting on all SoCs on a consolidated basis for an undertaking in the chemical/petrochemical sector is extremely complicated and doesn't bring much value. The main objective being to increase circularity, an approach by product group/application is more relevant, to identify for each case any problematic substance. Other regulations like EPR or DPP are designed to "track and trace" the SoC at the product level. Reporting via CSRD should be postponed and re-evaluated after the other specific EU regulations are finalized and implemented (e.g. REACH revision, EPR, DPP).

Reports in XHTML:

On a technical note, the requirements to prepare reports in XHTML and mark-up reports in XBRL (ESEF) should be revised and/or removed completely. This is a technical area and firms need time to prepare – given focus is on implementation of the ESRS reporting and the lack of final agreed digital taxonomies (and member state approaches) – this should be delayed until such time the cost-benefits are clear and it is clear what format users of financial statements need. This will allow companies to prioritize accordingly. It is highly technical and very complex; it increases compliance risks and costs disproportionately without a real benefit. Publishing financial and sustainability reports in PDF-format is widely accepted by private and institutional users and should suffice for the first period of reporting under CSRD.

Taxonomy Regulation:

Regarding Taxonomy, two main points appear to be challenging and therefore need to be clarified:

- **Alignment testing requirements for portfolios of small-scale projects:** the time and resources required to conduct alignment testing of investments consisting of a portfolio of similar small-scale projects are significant under the current regulation as all projects are required to be tested to be aligned. The cost related to testing small scale projects may significantly exceed the benefit, and companies may refrain from testing these projects and understate the alignment KPIs. Therefore, clarification of the requirements is needed.
- **Inherent non-alignment:** clarification is needed on what is required for assets that were not aligned at the time of investment or the time when they were developed to be aligned retrospectively. This could also be applicable for projects developed in line with the EU regulations but before the implementation of the EU Taxonomy regulation. Clarification is needed on how to approach this inherently assigned risk.

Finally, IOGP Europe strongly recommends the Commission to consider that complying with ESRS and EU Taxonomy requirements for the first time simultaneously requires significant resources.

CBAM reporting:

CBAM: the 1st report is required by 31 Jan 2024; we observe that it will be challenging to gather the data from our suppliers who are based outside of the EU. Our suppliers do not have enough resources to carry out detailed assessment of their emissions. Additionally, more and more companies require providing information on CO2 emissions – this is caused by overinterpretation of the application of the EU rules.

QUESTION:

Among those, which specific reporting requirements are considered difficult to fulfil? Which takes the most time? Please detail to the extent possible the hours per month/year or the full-time equivalent staff needed to fulfil these requirements in specific areas.

IOGP EUROPE FEEDBACK:

IOGP Europe has identified some general difficulties related to timing for implementation of certain reporting requirements.

CSRD:

Under the CSRD draft reporting standards, the phased-in approach of the requirements should be extended to other topics/requirements as more time to assess and implement them is needed, such as:

- Obtaining information of non-consolidated companies regarding its climate and pollution performance (to be phased in in a longer period of time).
- Where voluntary (non-binding) guidance is being developed (i.e. by EFRAG) it should be clear how it will be used and that it is not adding additional requirements by stealth. Companies should be free to consider non-binding guidance as needed, to the extent it helps them prepare their disclosures.
- Furthermore, the need to report across the entire value chain for CSRD is particularly difficult, especially when CSRD is being implemented at the same time across all sectors. This requirement should be postponed to the moment that the data becomes available to all, via the public CSRD disclosures.

ESRS:

Value Chain disclosure requirement in ESRS

An area where reporting obligations are particularly problematic is related to the definition of the reporting perimeter according to the ESRS – European Sustainability Reporting Standards (required by the CSRD – Corporate Sustainability Reporting Directive) and the related extension to the Value Chain.

The definition of value chain, and especially the upstream value chain remains extremely broadly defined and will significantly increase the reporting burden for companies beyond the reporting company itself as it goes beyond the traditional concept of 'Supply Chain'. Indeed, it includes actors upstream (e.g., suppliers providing products or services that are used in the development of company's products or services) and downstream (e.g., distributors, customers) from the undertaking. Consequently, companies are requested to rethink their approach to materiality analysis and, in some cases, data collection to correctly account for aspects related to the value chain. With such a framework in place, it will be very difficult if not impossible to obtain and assure such information. A company may have several layers or tiers of suppliers well beyond those with whom the company has direct transactions with. It is not very clear whether a company should include all suppliers within the value chain or should employ a reasonable cut off methodology, such as an initial focus on Tier 1 suppliers. As a result, O&G companies encounter several difficulties in obtaining value chain data despite their high-potential leverage towards suppliers/clients. The main reasons of these obstacles are:

- The very high number of actors involved over multiple sectors/industries;
- The multi-tier perspective of value chain actors, especially in the O&G sector, contractors, sub-contractors, ancillary subcontractors; distributors, agencies, final clients and consumers; suppliers of raw materials, goods, works, services;
- The wide range of dimension and complexity of actors involved (e.g. global suppliers with branches in all countries of undertaking's presence, international suppliers, local suppliers);

- The geographical diversity of value chain counterparties, that implies substantial differences not only in standard and approaches to ESG reporting (e.g. EU and extra-EU suppliers), but also in the overall companies' cultural approach to sustainability matters, in most cases just at the beginning in terms of awareness;
- The need of establishing a consistent and continuous flow of information regarding ESG matters between the undertaking and value chain actors, mostly to be newly created. The ESRS requirements imply a continuous update of ESG data that are not publicly available, and whose channels need to be designed and implemented.

Given that the reporting obligation will apply before 2025, it is currently difficult to provide an accurate cost projection. However, a large O&G company may have more than 10.000 direct suppliers, and collecting data from all will require a significant investment. On average, we estimate that a large company will require at least 2- 3 full time employees to perform task related to value chain disclosures alone. This figure does not include employees involved in pre-existing supply chain engagement programs. Moreover, an ICT system would need to be implemented to handle, review and control such an amount of data. Estimating at least 50-100 € per supplier, the amount could be between 500.000-1.000.000 € per year, without considering the cost of the FTE to deal with those data.

Phase-in approach between parent companies and SMEs (in terms both of timing of compliance with ESRS and nature/ granularity of data) may make the preparation of the Annual report by the parent companies more difficult, SMEs being part of the value chain. Relevant sustainability data from SMEs will not be necessarily available in the first reporting years, and their consistency in terms of nature/comparability could not be assured, also considering that they will be provided with specific version of the ESRS. Moreover, not listed SMEs will only be subject to CSRD on a voluntary basis.

In conclusion, IOGP Europe acknowledges the necessity for parent companies to assess and monitor all the impacts in the value chains. However, for the above- mentioned reasons, we believe that disclosure of certain granular quantitative and qualitative information across a company's full value chain is expensive and not feasible for undertakings, and provides limited value for users, leading to potential confusion and/or more important information being obscured from their view. Overall, we identify as a possible solution for the value chain reporting the disclosures on tier 1 suppliers only, to reduce the reporting boundaries. This way, clear reporting boundaries would be defined, thus closing the gap arising from the massive room for interpretation that is now left to individual companies.

CBAM reporting:

A rough assessment shows that the foreseen time to report would be, on average, equal to 1 FTE for 3 or 5 days a month for each EU country.

QUESTION:

What are the reporting requirements that you consider obsolete or of limited usability or not proportionate? Is the purpose of collecting some information unclear?

IOGP EUROPE FEEDBACK:

Taxonomy Regulation:

In general, the EU Taxonomy Regulation recognizes alignment for the most advanced technologies only, which usually cover the top 10% of the technology peer. As the green transition will require time in the energy/petrochemicals sector, the efforts of the industry in transitioning to climate-neutrality should be also acknowledged.

IOGP Europe suggests the following modifications:

- Under the Taxonomy Regulation, it is necessary to clarify what 'materiality' means, i.e., that 'materiality' can be defined in line with the IFRS definition and is aligned with financial reporting. We recommend that the Commission does so by way of an amendment to the Disclosures Delegated Act or through an official Commission FAQ.
- Materiality threshold under Taxonomy: the definition of economic activity can lead to broad expansion in scope potential Taxonomy-defined activities. The lack of definition of "economic activity" could lead to over reporting. Companies report many immaterial activities, which are inputs/overheads activities and different from the 'core' business. This sum-of- parts approach results in a significant increase in aggregate eligibility, high compliance cost and in increases double-counting risk and makes meaningful comparison difficult. The Commission should require disclosing Taxonomy activities that are in scope for reporting if they correspond to final goods or services for sale to customers now or in the future based on business plans and excluding any supporting activities.
- We recommend further detailing the existent OpEx methodology, which is unclear, and removing the requirement to publish the OpEx KPI. Undertakings will still have to publish the proportion of their turnover and capital expenditure associated with Taxonomy-aligned activities which are more relevant to allow stakeholders (investors, authorities, NGOs...) to assess the contribution of companies and their transition plans. Therefore, IOGP Europe recommends limiting the disclosures to revenue and CapEx only, which constitutes by far the largest monetary values.
- We propose to remove the requirement to disclose the OpEx denominator when the numerator is deemed immaterial. The OpEx category is closely related to the maintenance and repair costs which is mainly relevant for projects in operation. In addition to challenges related to data quality and comparability, the purpose and benefit of the mandatory requirement to disclose the denominator also for project portfolio consisting mainly of development projects seems limited.
- IOGP Europe considers that OpEx does not entirely reflect the transition of the sector to sustainable transition for the following reason: OpEx is more difficult to track than Capex: the value is not known precisely before a project is started (often an estimation is used, e.g. a fixed % of Capex) and later the amounts are embedded in several broader existing budgets, complicating individual allocation.
- IOGP Europe considers some requirements as potentially irrelevant. As an example, for **Activity 6.5: Transport by motorbikes, passengers' cars and light commercial vehicles**, requirements are hardly measurable. We would appreciate the re-consideration of the Do Not Significant Harm (DNSH) criteria for the activities covered here.

Industrial Emissions Directive (IED):

- The 'transformation plan' required under the IED revision (art. 27d) should be aligned with the "transition plan" at company level required by ESRS E1 (CSRD delegated act).

QUESTION:

Which reporting requirements could be (further) digitalized and how? Please consider both the data collection and the submission of the report itself.

IOGP EUROPE FEEDBACK:

As a general consideration, we would like to see the development of an international climate risk projection database and platform for the reporting entities serving the need of having comparable and comprehensive data that can be utilized for the climate risk and vulnerability assessment. Currently, most of the climate risk databases exist at the Member State level, which makes the data and the projections hard to compare and harmonize in the case of EU/international level reporting.

QUESTION:

For which requirements could the reporting frequency be decreased?

IOGP EUROPE FEEDBACK:

For those activities that proved to be compliant during the last Taxonomy-reporting cycle, it would be sufficient to refresh them instead of conducting a new screening.

QUESTION:

Which reporting requirements overlap with other requirements and could be consolidated?

IOGP EUROPE FEEDBACK:

IOGP Europe would like to stress the need for a workable reporting framework based on usable requirements, avoiding duplication and excessive use of resources. We would like to highlight that Taxonomy Regulation, inasmuch the core of the EU sustainable finance legislation, should serve as a basis and as an example for the other EU initiatives, and overall, alignment among all of them should be the requisite for a smooth usability. IOGP Europe would suggest the following modifications:

CSRD:

- IOGP Europe would like to see that CSDDD does not impose obligations that go beyond the requirements under CSRD, both for companies falling under the scope of both and for those falling only under the scope of CSDDD. The current draft aligns only partially: obligations on companies outside the scope of CSDDD may go beyond CSRD obligations.
- Another point is that the possibility offered for parent companies to fulfil reporting obligations on behalf of their subsidiaries should be provided consistently and in a harmonized manner across the various regulations (for example CSRD vs CSDDD). To do so, it is important to use the same definitions in all the relevant pieces of legislation (e.g entities).
- Consistent differences remain between the ESRS and ISSB published to date, and not least, the ESRS double materiality approach does not go hand in hand with the single materiality approach of ISSB standards. Finally, we call for alignment between the 'transformation plan' required under the IED revision (art. 27 d) and the 'transition plan' at company level required by ESRS E1.

Taxonomy Regulation:

- Regarding Taxonomy, IOGP Europe would like to see a major interlinkage between the climate and environmental delegated acts, to have flexible and solid legislation. One possibility is to incorporate both climate and environmental requirements into one single Delegated Act.
- Furthermore, the Complementary Delegated Act covering nuclear and gas energy activities should be amended with reachable criteria and consistent common methodology. In addition, the Reporting tables of the Complementary Climate Delegated Act covering nuclear and gas energy activities should be simplified to avoid duplication.

CBAM:

For customs obligations like CBAM it may help to have the standard reports from the EU governments. This would streamline the compliance with various rules.

QUESTION:

Are some reporting requirements unnecessary in the sense that the information provided is already accessible to public authorities/EU via other communication channels or information systems/ databases?

IOGP EUROPE FEEDBACK:

CSRD draft reporting standards cover the reporting of information already requested/available through other means and databases (EU, local/regional/national authorities), such as, for example:

- Information to be disclosed by companies under the Industrial Emissions Directive (IED 1);
- Closely linked to the IED, the key environmental data from industrial facilities under the European Pollutant Release and Transfer Register (E-PRTR 2);
- The F-gas Portal & HFC Licensing System: Quota allocation, authorization and reporting;
- EPRTR reporting is available on the EU IEP portal on a granular level (installation). The additional reporting for CSRD (ESRS E2) on consolidated level is redundant.

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