Briefing note: EITI and commodity trading

In many countries, the state receives a share of oil and gas that is being produced. These physical revenues can occur because the state or a State-Owned Enterprise (SOE) operates or owns shares in a producing license, through the existence of production-sharing contracts, or when companies make payments such as royalties with physical commodities rather than money.

The state or the SOE then sells these physical resources, often to trading companies. Given that governments implementing the EITI have to account for all revenues received from natural resources, trading companies increasingly figure in EITI Reports.

In some countries, the management of the state's share of oil and gas is often an area of perceived corruption and limited accountability. Lack of transparency about how much the state receives from the sale of its oil and gas also creates a distorted picture of government revenues from the extractive sector. The EITI therefore requires reporting on these sales in accordance with EITI requirement 4.1.c.

Requirement 4.1.c Sale of the state's share of production or other revenues collected in-kind:

Where the sale of the state's share of production or other revenues collected in-kind is material, the government, including state-owned enterprises, are required to disclose the volumes sold and revenues received. The published data must be disaggregated to levels commensurate with the reporting of other payments and revenue streams (Requirement 5.2.e). Reporting could also break down disclosures by the type of product, price, market, and sale volume. Where practically feasible, the multi-stakeholder group is encouraged to task the Independent Administrator with reconciling the volumes sold and revenues received by including the buying companies in the reporting process.

Source: EITI Standard, p. 27

In EITI implementing countries where production sales generate material revenues, the entity that sells the commodities – typically a SOE – should report on the sales in a detailed manner. The reporting should include the volume of the sale and the revenues received. Because different commodities have different values, the report could also indicate what type of commodity was sold, e.g. the grade of crude oil, as well as the date of the sale given the frequent fluctuations in commodity prices. As with all EITI reporting, the information should be broken down by company, in this case the different companies that buy resources from the state. All sales should be covered in order to provide a clear picture of how the state dispatches of the entirety of its production share and in-kind revenues. Along with sales for export, this includes sales to domestic buyers or state-owned refineries where applicable.

The EITI encourages the reconciliation of the volumes sold and revenues received, the same way that other revenue streams are reconciled in EITI reports. Reconciliation includes issuing reporting templates to all the companies that buy oil, gas or minerals from the state or SOE. In some countries, like Ghana and Chad, this is just a handful of buying companies. In others, the number is higher. In Iraq EITI, sale data is collected from nearly 40 companies, mostly foreign buying companies. The EITI Report then compares the sale data from the SOE (the seller) with that from the companies that buy the oil.

To date Chad, Indonesia, Iraq, Nigeria and the Republic of Congo are among the EITI implementing countries that have disclosed some information about the revenues from the sale of oil and gas (see examples in Box 1 below). Further implementing countries are expected to do so as they publish their EITI Reports by the end of 2014.

Box 1 – Example of oil sales reporting in Iraq

Example from Iraq EITI: Iraq's EITI reports reconcile payments made by companies that buy oil and revenues received by the government from the sale of the government's oil in the EITI report (see figure 5). The report also includes a reconciliation of volumes sold as well as a description of the sale process, and average monthly prices and export quantities for the four main buying markets: North America, Europe, Asia and the special bilateral deal with Jordan.

Figure 1 – Reconciliation of payments and revenues from the sale of oil in Iraq

5.5 Exported crude oil reconciliation between SOMO and buyers for the year 2011

No.	Buyers Name	Amount SOMO US$	Amount buyer US$	Difference US$	Note Reference
1	INDIAN OIL CORP (CHENNAI PETROLEUM CORPORATION)	9,519,012,213	9,519,012,213	-	-
2	SINOCHEM	5,446,406,834	5,529,612,887	(83,206,053)	A
3	CHINA INTERNATIONAL UNITED (UNIPEC)	4,689,487,968	4,658,777,527	30,710,441	B
4	BP Oil	4,665,262,627	4,436,568,308	228,694,319	C
5	CHEVRON	4,563,559,247	4,287,834,897	275,724,350	D
6	CONOCO PHILLIPS COMPANY	3,990,678,560	3,990,678,560	-	-
7	GS CALTEX SINGAPORE PTE. LTD	3,234,486,393	3,371,433,287	(136,946,894)	E
8	VALERO MARKETING &SUPPLY COMPANY	3,035,799,153	2,984,990,107	50,809,046	F
9	SHELL	2,939,664,330	2,890,893,528	48,770,802	G
10	SK ENERGY	2,451,618,356	2,451,618,356	-	-
11	TURKISH PETROLEUM INTERNATIONAL	2,446,832,230	2,446,832,230	-	-
12	NORTH PETROLEUM (ZENHUA Oil)	2,093,506,950	1,988,486,303	105,020,647	P

Box 2 – Example of oil sales reporting in Nigeria

Example from Nigeria EITI: NEITI's 2009-2011 physical and process audit report, Annex B, includes an explanation and review of the procedures for pricing Nigerian oil, an assessment of the conformity with the procedures, and a review of the contracts between NNPC and the companies buy Nigerian oil. It also includes cargo-by-cargo sale data (see figure 6).

Figure 2 – NEITI cargo-by cargo data

Nigeria Extractive Industries Transparency Initiative

Physical and Process Report: 2009 – 2011 Oil & Gas Audit

Appendix B: Process for Pricing of Federation Equity Crude Oil

Subject: PPMC LIFTINGS AND PRICES

S/N	CUSTOMER	B/L DATE	CRUDE TYPE	NOM QTY	QTY LIFTED	VESSEL	UNIT PRICE $	CRUDE VALUE $	L/C NUMBER	PRICING OPTION	API	DESTINATION
1	CALSON	02/01/2009	YOHO	105,000	105,126	EVRIDIKI	37.656	3,958,624.66	CI0957250-FPH	ADVANCED	40.35	USGC
2	CALSON	04/01/2009	BL	950,000	949,199	ASTRO PHOENIX	38.513	36,556,501.09	779-01-0066820-c	ADVANCED	33.75	GERMANY
3	CALSON	04/01/2009	QIL	950,000	950,000	TAKAMA	38.513	36,587,350.00	C1Z08015409	ADVANCED	35.76	INDIA
4	CALSON	05/01/2009	BONGA	950,000	958,771	ARIES VOYAGER	38.163	36,589,577.67	DOC-644641-G	ADVANCED	29.92	INDIA
5	CALSON	06/01/2009	BL	950,000	918,610	FRON CENTURY	40.972	37,637,288.92	FONL04M008913	ADVANCED	34.07	GERMANY
6	GLENCORE	11/01/2009	BL	950,000	950,896	FRONT COMMANDER	44.796	42,596,337.22	LCIN4761748	DEFERRED	33.44	USGC
7	CALSON	17/01/2009	ESC	950,000	949,463	IRENE SL	44.296	42,057,413.05	FONL04M009000	ADVANCED	33.25	USGC
8	CALSON	18/01/2009	BB	950,000	949,919	FRONT COMMODOE	44.796	42,552,571.52	LCIM4760735	ADVANCED	36.67	USGC
9	CALSON	19/01/2009	ESC	950,000	949,320	IRENE SL	44.608	42,347,266.56	DOC-644905-G1	ADVANCED	33.05	USGC
10	CALSON	29/01/2009	YOHO	950,000	949,850	COSMERRY LAKE	45.417	43,139,337.45	LM106185LDN	ADVANCED	39.89	USGC
11	CALSON	30/01/2009	ESC	950,000	949,210	ATLANTIC PROSPERITY	45.057	42,768,554.97	LCIM4770666	PROMPT	33.25	USGC
12	CALSON	31/01/2009	BL	300,000	302,833	UNIVERSAL QUEEN	45.642	13,821,903.79	LCIM4767759	ADVANCED	34.60	USGC
	Jan-09				9,883,197			420,612,726.89				

Box 3 – Example of oil sales reporting in the Republic of the Congo

Example from the Republic of the Congo: The Republic of the Congo discloses quarterly reports on the sales of the government's oil by its state owned company, Societe National de Petrol du Congo (SNPC). These quarterly reports include: (i) a reconciliation of volumes received by SNPC from its Production Sharing Agreements (PSA); (ii) detailed information on the commercialisation of the oil (volume, price and revenues received for each shipment and each type of blend), and (iii) revenues paid to treasury for each shipment.

Figure 3 – Commercialisation of government's oil by SNPC

Annexe II Tableau V : Etat de suivi de la commercialisation SNPC

Sur Encaissement en FCFA

Données Véritas et Opérateurs des terminaux en Bbls					Valorisation au prix SNPC en M FCFA	
Date	Nature	Cargaison à 100%	Cargaison République		Prix SNPC	Montant
21-oct-13	Djeno	875 114,6	875 114,6	$/CFA Bbls/$	485,490 99,900	42 443 454 911
22-oct-13	Butane	43 052,7	43 052,7	$/CFA Bbls/$	476,000 60,475	1 239 318 665
27-oct-13	Djeno	875 945,1	875 945,1	$/CFA Bbls/$	481,270 99,950	42 135 532 389
04-nov-13	Azurite	471 959,0	471 959,0	$/CFA Bbls/$	471,100 97,843	21 754 401 358
07-nov-13	Butane	43 098,5	43 098,5	$/CFA Bbls/$	476,000 81,213	1 666 074 470
09-nov-13	Nkossa	931 214,1	931 214,1	$/CFA Bbls/$	469,780 105,375	46 097 953 162
13-nov-13	Propane	245 213,2	245 213,2	$/CFA Bbls/$	476,000 48,128	5 617 571 223
24-nov-13	Djeno	876 078,8	876 078,8	$/CFA Bbls/$	474,500 108,427	45 073 038 545
14-déc-13	Nkossa	904 577,17	904 577,17	$/CFA Bbls/$	455,990 109,097	45 000 127 949
24-déc-13	Butane	43 031,78	43 031,78	$/CFA Bbls/$	474,600 72,510	1 480 863 162
30-déc-13	Djeno	920 196,47	920 196,47	$/CFA Bbls/$	441,820 105,310	42 814 960 247
Total						295 323 296 081

Disaggregated by shipment and blend

Value of oil sold (CFA)

Sur Encaissement en USD

Données Véritas et Opérateurs des terminaux en Bbls					Valorisation au prix SNPC en USD	
Date	Nature	Cargaison à 100%	Cargaison République		Prix SNPC	Montant
05-oct-13	Djeno	878 582,5	878 582,5	$/CFA Bbls/$	1,000 105,180	92 409 303
07-nov-13	Djeno	877 436,5	877 436,5	$/CFA Bbls/$	1,000 101,790	89 314 256
18-nov-13	Djeno	885 919,6	885 919,6	$/CFA Bbls/$	1,000 105,400	93 375 925
07-déc-13	Djeno	876 960,4	876 960,4	$/CFA Bbls/$	1,000 107,750	94 492 485
17-déc-13	Djeno	873 306,64	873 306,64	$/CFA Bbls/$	1,000 106,170	92 718 966
Total						462 310 936

Disaggregated by shipment and blend

Value of oil sold (USD)

Questions and Answers

Why is oil sales transparency important, and why should commodity-trading companies participate in the EITI?

Participation of commodity trading companies in the EITI reporting process will help citizens in EITI implementing countries ensure that there are high standards of transparency and accountability in the trading of their natural resources. It also contributes to reduce the risk of corruption in the trading of oil, gas and minerals on behalf of the government. The EITI is the global standard for openness around the management of revenues from natural resources, now implemented by 48 resource-rich countries. These countries publish EITI Reports where the government discloses how much it receives from extractive companies operating in their country and these companies disclose how much they pay. Commodity trading companies buy oil from governments and therefore make significant payments to governments and State-owned enterprises (SOEs), which should also be disclosed in EITI Reports.

Isn't the EITI voluntary?

Countries voluntarily commit to implement the EITI. However, once a country is admitted as an EITI implementing country, all companies that make material payments to the government are required to disclose their payments, and all government agencies that receive these payments are required to disclose their revenues. These figures are reconciled by an Independent Administrator in the country's EITI Report. EITI disclosure is mandated by law, decrees, regulations or PSAs in most implementing countries.

What does it mean to be an EITI supporting company?

A Supporting Company publicly supports the EITI and helps to promote the Standard internationally and in countries where it operates. Being an EITI Supporting Company does not require additional reporting or disclosure of payments beyond what is required for all companies operating in countries implementing the EITI. Becoming an EITI Supporting Company enables commodity trading companies to contribute to shaping global policy on transparency in commodity trading and gain access to a wide network of extractive companies that deal with increasing demands for transparency and reporting related to the extractive sector. The EITI has also increasingly become a forum where the companies, civil society and governments meet to reach compromises that further a common agenda of transparency and accountability in the management of natural resources. For further information, go to the EITI website https://eiti.org/supporters/companies.

When will disclosures on oil sales happen?

To date, the EITI countries Chad, Indonesia, Iraq, Nigeria and the Republic of Congo have disclosed some information about the revenues from the sale of oil and gas (see examples in Box 1 above). Further implementing countries are expected to do so as they publish their EITI Reports by the end of 2014.

With Trafigura's commitment to disclose what they pay to governments for buying their oil, figures for the following countries will be available: Colombia, Côte d'Ivoire, Democratic Republic of the Congo, Ghana, Guatemala, Honduras, Mozambique, Norway, Peru, the Republic of Congo, Senegal, Tanzania, the United Kingdom, the Unites States, and Zambia This information will be disclosed in EITI Reports published by each country and also on Trafigura's Annual Report to be published December 2015.