Extractive Industries Transparency Initiative

TRANSPARENCY IN THE FIRST TRADE

Contents

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EXECUTIVE SUMMARY

ENSURING TRANSPARENCY in how resource-rich countries sell their oil, gas and minerals goes to the core of the mandate of the Extractive Industries Transparency Initiative (EITI). In total, USD 2.5 trillion has been disclosed by EITI countries since its inception. Almost half of those revenues are from so-called "first trades" and amount to over USD 1 trillion in revenues disclosed through EITI reporting.

"First trade" describes a situation where a state (or a state-owned enterprise) sells its share of physical resources from its oil, gas and mining sector, usually to commodity trading companies. The terms of this transaction are a matter of public interest and help to create a transparent and open market in which governments, companies and citizens can have confidence. For many countries, this type of transaction represents a significant part of a government's share of revenues from the extractive sector and commodity traders are a major source of income.

Despite the importance of the commodity trading industry, data on the sector has been scarce and under analysed. This may explain why the industry has been slower in highlighting the enormous financial contribution it has made to developing country economies, far outstripping official aid budgets and on a level if not higher than traditional extractive industries companies. For every dollar Glencore paid in tax to resource-rich countries for their extractive activities in 2017, the company paid five dollars to the same countries to buy their oil.[1]

Amidst growing calls for greater transparency and accountability, the EITI has been working with national governments, state-owned enterprises (SOEs) and commodity traders to disclose first trades. In 2013, the EITI Standard required that first trades between national oil companies and commodity traders be disclosed. The bar has since been raised with an expanded requirement in the 2019 EITI Standard. EITI member countries are leading by example and racing ahead through innovative approaches to disclosing more data, supported by national oil and mining companies. Colombia, Ghana, Indonesia, Iraq, Nigeria and Trinidad and Tobago are already routinely disclosing the volumes they sell and values they receive from these sales. Traders are following suit, with Glencore and Trafigura already publishing their payments to governments, and Gunvor has committed to do the same. This has helped enhance their corporate reputation and social license to operate.

In 2015, a multi-stakeholder working group on commodity trading was created to guide the EITI's work in this frontier extractives transparency issue. Leading governments, state-owned enterprises, commodity traders and civil society organisations are part of the group. Concrete results to date have included an improved and more ambitious disclosure requirement for governments, state-owned enterprises and companies buying oil, gas and minerals from resource-rich countries. Reporting guidance and templates have also been developing and implemented at the country and industry level. At the national level, EITI multi-stakeholder groups have used the working group guidance to improve reporting and inform debate related to the return on the sale of their natural resources. So far, these efforts have led to more granular and detailed disclosures in at least eight EITI countries, allowing stakeholders to understand and explore the way in which these sales are conducted. There is mounting evidence that transparency supports greater competition and that following best practice can result in reputational gains and improved access to capital.

It is widely accepted that further work is needed in improving transparency and accountability in global commodity trading. EITI countries and progressive companies are forging ahead. The rest of the industry needs to catch up. While disclosure requirements in Canada, the EU and other jurisdictions of trading companies may contribute, the EITI's work on the first trades in resource-producing countries is essential to shed light on these revenues. Continued engagement from transparency leaders in the commodity trading sector, producing countries and civil society, as well as the financial industry, will be needed to ensure sustained gains from these efforts.

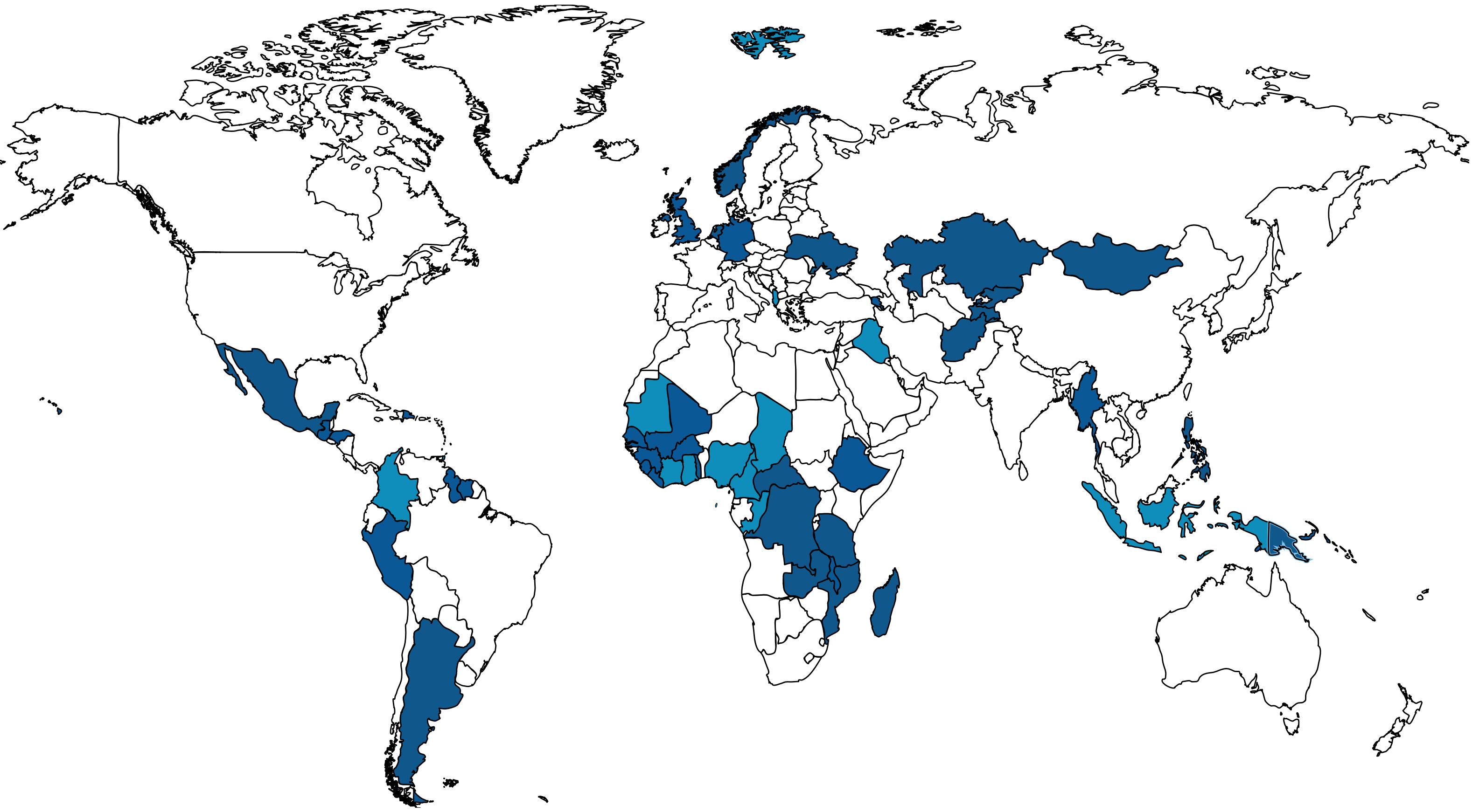
EITI – the global standard for the good governance of oil, gas and mineral resources

The EITI Standard promotes the open and accountable management of natural resources in producing countries. Disclosures are required where oil, gas and mining activities take place. This is in contrast and complements the growing number of home-country rules emerging in major jurisdictions such as Canada, China and the EU and that are being considered in trading hubs like Switzerland. The Standard is implemented by 52 countries around the world ranging from Colombia, Ghana, Indonesia, Iraq, Kazakhstan to Mexico, Nigeria, Norway and the Republic of the Congo. At both international and national levels, it is structured as a multi-stakeholder group (MSG) bringing together government, industry and civil society to oversee the benefits arising from extractive revenues.

The EITI is supported by 60 of the world's largest mining, oil and gas companies, 17 supporting countries, 21 international organisations and 95 institutional investors representing over USD 19 trillion in assets under management. Commodity traders such as Gunvor and Trafigura are also supporting companies who have committed to disclosing their payments to governments, while BP, Equinor, Glencore, Shell and Total have been longstanding supporters due to their extractive activities.

The EITI Standard ensures disclosure of taxes and other payments made by extractive industry companies to governments. It also requires reporting on licensing, production, revenue collection, revenue allocation and the role of state-owned companies operating in the oil and mining sector. The national multi-stakeholder groups in each of the 52 implementing countries constitute forums for debate on enhanced transparency and accountability in extractive industries. They oversee national implementation of the EITI Standard and serve to strengthen government and company systems, inform public debate and build trust between stakeholders. EITI countries are required to publish an annual EITI Report and go through a quality assurance mechanism ("Validation"), at least every three years.

EITI countries



EITI Implementing

EITI Implementing countries disclosing data on first trades

"First trade" describes a situation where a state (or a state-owned enterprise) sells its share of physical resources from its oil, gas and mining sector, usually to commodity trading companies.

1. The case for first trade transparency

Ensuring accountable management of government revenues from sale of oil, gas and minerals

SINCE ITS INCEPTION, the EITI has brought to the fore the revenue countries receive in exchange for oil, gas and mineral resources. To date, over USD 2.5 trillion in government revenues from the extractive industries has been disclosed by EITI member countries. Yet this staggering figure hides a surprising fact: half of these revenues are received in-kind, globally amounting to 1.2 trillion – close to half of all revenues disclosed under the EITI. At least 17 of 52 EITI countries collect so called “in-kind” revenues.

Crude oil sales contribute for more than two thirds of total government revenue in countries such as Azerbaijan, the Republic of Congo, Iraq and Nigeria. The sales are significant even in countries with diversified economies, such as Mexico or Norway, where export sales represent large portions of the state budget. In total, at least 17 of 52 EITI countries collect so called “in-kind” revenues.

Commodity trading is one of the ways through which in-kind revenues sold by the state or a state-owned company are transformed into cash. Today, commodity trading remains essential to the global economy and plays an important role in organising the global flows of vital materials that underpin economic growth, including the output of the extractive industries such as oil, gas, minerals and metals. Commodity traders operate globally with Switzerland hosting the headquarters of some of the largest companies, most of which are private and therefore not covered by mandatory disclosures requirements.

Transactions involving the public entities in charge of managing resource wealth in producing countries and private actors are often opaque. The perception of corruption, patronage and poor management remains widespread, as well as accusations that government coffers have not received the expected market value for the resources sold. This poses significant governance challenges for producing states and business risks for the trading industry. As highlighted in a number of studies conducted by civil society organisations and research institutes[2] and summarised in the table below, risks appear at various stages of the process by which governments and state-owned enterprises sell their oil and gas.

“In-kind” revenues

In many resource-rich countries, governments choose to receive the payments from companies for the right to extract resources ‘in-kind’, through physical transfers of oil, gas and minerals, rather than transfers of money in cash. In-kind revenues can also occur because the state or a state-owned enterprise owns shares in a producing license. The state or a state-owned enterprise disposes of the resources received, often by selling them to commodity trading companies Individual oil sales are typically large transactions worthy of attention: the average cargo size is around 900,000 barrels, which in the case of crude oil is worth USD 45 million at a price of USD 50 per barrel.

Potential risks in the first trade process

Typical stages of the first trade process	Governance and reputational risks	Transparency measures
1. Selection of buyers and allocation of sales contracts	• Bribery of officials to secure contracts • Conflict of interest by officials in charge of allocations • Selection of buying companies with insufficient capacity to lift and market the products	• Open, competitive and rule-base allocation processes to ensure a level playing field • Transparency of the identity of the buying companies and their ultimate beneficial owners
	• Discretion in negotiation of terms	• Accessible and standardised sales terms
2. Sales transactions and collection of revenues	• Revenue leakages • Lack of public understanding about the payments made from buying companies to the government	• Regular disclosures by sellers and buyers of the volumes sold and values received from the sale of the state's oil, gas and minerals
3. Transfer of proceeds to the treasury	• Misallocation or diversion of revenues • Public mistrust of how revenues from the sale of the state's oil, gas and minerals are managed and benefitting the country	• Disclosures of the revenues collected and transferred to the treasury or other government agency
	• Lack of public understanding of special financing arrangements (such as resource-backed loans and pre-payment deals)	• Transparency of special sales agreements that affect government revenues accrued from first trades

Despite the size and importance of sales by government and state-owned enterprises, these transactions were not in the public domain until very recently. Data is only now beginning to be published through EITI reporting, other reporting mechanisms or voluntarily disclosures by traders. As a result, civil society, local and international media, as well as members of the general public have in the past been less informed about the financial contribution of the commodity trading industry in comparison to traditional upstream activities. Consistency of the published data needs to be improved to ensure that it can be analysed and used by governments, civil society and international financial institutions.

Overall, commodity trading merits greater transparency, oversight and detailed disclosures of payments so government can begin to address and mitigate corruption risks. Revenues resulting from the sale of natural resources by governments and state-owned companies belong to the public. As a result, governments and state-owned enterprises are in fact selling "on behalf" of their people. Suboptimal processes, revenue leakages, and inefficient management or the retention of funds without explicit prior authorisation by the state can reduce the resources available for investing in public goods and services.

2. The EITI and first trade disclosures

How the EITI Standard covers first trades

STATE-OWNED ENTERPRISES and commodity traders making payments to governments have been facing increasing demands from advocates and policymakers to adopt more transparent business practices. In answer to these calls, the EITI moved to require the disclosure of information about revenues from first trades of oil, gas and minerals as part of the 2013 EITI Standard.[3] The requirement was further clarified in the 2016 EITI Standard and expanded on in the 2019 Standard. In addition to more clarity on the required transactions to be disclosed, the improved EITI Requirement encourages governments to be transparent about their processes for selecting buyers and the related sales agreements. Such disclosures aim to contribute to a level playing field for industry players doing business with producing countries. The updated EITI

Standard also encourages disclosure of payments to governments by commodity traders. Most of the improvements relate to voluntary, rather than mandatory, disclosures.[4]

The EITI's adoption of Requirement 4.2 was a major milestone in the journey towards a more transparent and accountable management of natural resources in producing countries. Accordingly, a state-owned company or other government agency in charge of marketing the state's oil, gas and minerals must fully disclose the revenues that it collects from the sales of such resources. The multi-stakeholder group in each EITI implementing country – which comprises representatives of the government, companies and civil society- agrees on the threshold above which revenues and payments are deemed significant enough to be disclosed. Multi-stakeholder groups also decide whether the revenues received and volumes sold should also be disclosed by buying companies and reconciled with the government figures. Put differently, Requirement 4.2 only necessitates disclosure by the government or state-owned enterprises and may lead to indirect disclosures on transactions from buyers, whether approved by buyers or not. Proactive and voluntary disclosures by buying companies are however encouraged. Participation by buying companies in EITI processes at the national level can allow reporting companies to know what is being disclosed about their transactions with the state, and how and when reporting happens.

The reporting frequency varies among EITI countries. The EITI Standard encourages multi-stakeholder groups to explore opportunities to disclose data as soon as practically possible to increase the relevance of the reported data. In practice, the maximum reporting lag can be as much as 24 months. In agreeing the reporting schedule, the multi-stakeholder group should take into account the needs of all EITI stakeholders and consult with buying companies. For instance, buying companies have indicated that it would be commercially sensitive to disclose information about sales conducted under active term contracts.

EITI Standard 2019 – Requirement 4.2

Sale of the state's share of production or other revenues collected in kind.

a) Where the sale of the state's share of production of oil, gas and/or mineral resources or other revenues collected in kind is material, the government, including state-owned enterprises, are required to disclose the volumes received and sold by the state (or third parties appointed by the state to sell on their behalf), the revenues received from the sale, and the revenues transferred to the state from the proceeds of oil, gas and minerals sold. Where applicable, this should include payments (in cash or in kind) related to swap agreements and resource-backed loans.

The published data must be disaggregated by individual buying company and to levels commensurate with the reporting of other payments and revenue streams (4.7). Multi-stakeholder groups, in consultation with buying companies, are expected to consider whether disclosures should be broken down by individual sale, type of product and price.

The disclosures could include ownership of the product sold and the nature of the contract (e.g. spot or term).

b) Implementing countries including state-owned enterprises are encouraged to disclose a description of the process for selecting the buying companies, the technical and financial criteria used to make the selection, the list of selected buying companies, any material deviations from the applicable legal and regulatory framework governing the selection of buying companies, and the related sales agreements.

c) Companies buying oil, gas and/or mineral resources from the state, including state-owned enterprises (or third parties appointed by the state to sell on their behalf), are encouraged to disclose volumes received from the state or state-owned enterprise and payments made for the purchase of oil, gas and/or mineral resources. This could include payments (in cash or in kind) related to swap agreements and resource-backed loans.

The published data could be disaggregated by individual seller, contract or sale.

The disclosures could for each sale include information on the nature of the contract (e.g. spot or term) and load port.

d) Where there are concerns related to data reliability and where practically feasible, the multi-stakeholder group should consider further efforts to address any gaps, inconsistencies and irregularities in the information disclosed.

EITI and first trade transparency: milestones along the journey

DEC 2011
Iraq became the first country to publish data on crude oil sales by the national oil company to commodity traders through EITI reporting.

MAY 2013
EITI Standard launched, including provision on transparency of revenues from the sale of natural resources.

NOV 2014
Trafigura became the first commodity trading company to publish payments to governments for the purchase of crude oil.

2015
Establishment of the EITI Working Group on Transparency in Commodity Trading.

FEB 2016
2016 EITI Standard launched, with clarification that information about the sales of in-kind revenues should be broken down by buyer.

JUNE 2016
EITI established "targeted effort" to improve transparency of commodity trading in implementing countries, with participation by: Albania, Cameroon, Chad, Cote d'Ivoire, Ghana, Indonesia, Mauritania and Nigeria.

MARCH 2017
The OECD Global Anti-Corruption and Integrity Forum recognised need to develop transparency instruments for commodity traders to disclose their payments to government.

MAY 2017
Eleven countries announced their support for commodity trading transparency at London Anti-Corruption Summit, including Australia, Italy, Japan, The Netherlands, Norway, Switzerland and the United Kingdom, as well as the European Commission.

JUNE 2017
EITI guidance on oil sales reporting with standard reporting template (Guidance note 26) developed by the Working Group and endorsed by the EITI Board.

2018
Albania, Chad, Cameroon, Indonesia and Ghana published more detailed information on first trades using EITI guidance.

JAN 2019
IMF recognised the need for more transparency in payments to governments related to commodity trading in its Fiscal Transparency Code.

MARCH 2019
Improvement of EITI Requirement on first trades endorsed by Working Group.

JUNE 2019
Launch of EITI Standard and improved EITI Requirement on first trade disclosures.

EITI Working Group on Transparency in Commodity Trading members

Governments and state-owned enterprises

Ghana (Ghana National Petroleum Corporation)
Nigeria (Nigeria National Petroleum Corporation)
Indonesia (SKK Migas)
Chad (SHT)
Switzerland (SECO)
United Kingdom (DFID)

Industry

Extractives companies with trading desks (EITI supporters):
BP
Equinor
Total
Shell

Trading companies (EITI supporters):
Glencore
Gunvor
Trafigura
Philia

Other trading companies:
Mercuria
Swiss Trading & Shipping Association (STSA)
Vitol

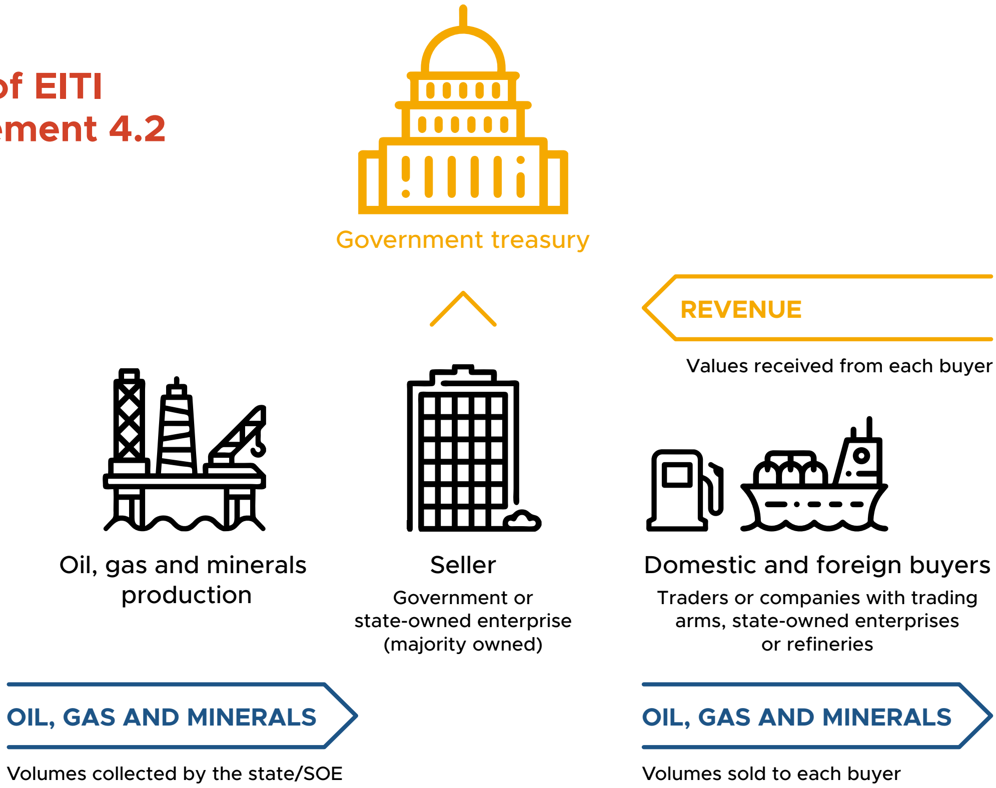
Civil society organisations

Natural Resource Governance Institute
Public Eye
SwissAid

International institutions

OECD

Scope of EITI Requirement 4.2



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A global coalition of transparency leaders: EITI Working Group on Transparency in Commodity Trading

In 2015, the EITI established a multi-stakeholder Working Group to advise and guide the EITI's efforts to bring greater transparency to the first trade. The Working Group consists of commodity trading companies, civil society, host and home countries governments and national oil companies.

A targeted effort for countries with significant commodity trading activities was launched in June 2016. Eight countries participated in the targeted effort including Albania, Cameroon, Chad, Côte d'Ivoire, Ghana, Indonesia, Mauritania and Nigeria. These efforts undertaken with the financial support of the governments of Switzerland and the United Kingdom have included:

- Identifying and addressing key gaps related to the sale process through the data collection process.
- Continuous engagement of state-owned enterprises to encourage systematic disclosures of sales data.
- Consultations and capacity building for key government, industry and civil society stakeholders.
- Support for analysis and use of the data disclosed.

In May 2017 the Working Group endorsed the publication of "*EITI Guidance note 26 – Reporting on first trades in oil*".[5] The guidance and the accompanying reporting template on first trades aim to promote greater accountability in the trading part of the value chain through the disclosure of data that is useful to citizens and other oversight actors. Areas covered include the types of production the national oil company sells, the volumes of each type of oil sold per year, the buyer selection process, the names and beneficial owners of all buying companies, the types of contracts used and their attributes, the sale contracts, the pricing system, as well as the transfer and expenditure of oil sale proceeds.

EITI “first trade” reporting template: what the data can tell you

The guidance developed by the EITI and the working group includes a model reporting template which sets out core and additional data that could be reported to meet EITI Requirements and allow for the efficient and effective interpretation and utilization of data by third parties. The reporting template guides government and national oil companies’ disclosures. The guidance also addresses the reporting of contextual information about first trades, such as the types of production the national oil company sells, the volumes of each type of oil sold per year, the buyer selection process, the names and beneficial owners of all buying companies, the types of contracts used and their attributes, the sale contracts, the pricing system, as well as the transfer and expenditure of oil sale proceeds. Buying companies can equally use the table as guidance for their matching and/or voluntary corporate disclosures. Finally, the guidance deals with the reporting on special cases of oil sales (or “unconventional sales”), such as swap sales, pre-payment deals and resource-backed loans.

“Unconventional sales” warranting transparency

Swap deals or crude-for-petroleum product arrangements are entered into by some governments or their national oil companies to meet domestic fuel consumption needs. This type of transactions can be complex to understand, and increased transparency can help reduce corruption and mismanagement risks.

Pre-payment deals and resource-backed loans are sales agreements through which countries use their oil wealth to secure financing, in the form of pre-payment or advance payment deals. Typically, in such deals, a government or national oil company receives funds up-front in exchange for future oil production. The need for transparency around pre-payment deals has grown in importance as commodity prices have dropped. The outcome of these types of deals may affect public revenues for years to come.

EITI Guidance on oil sales reporting available from eiti.org/GN26

1. What oil is being sold?

Core information			Additional information	
Name of the seller	Oil grade and quality (e.g. API) — cargo by cargo disclosures only	Date of sale — (Bill of landing date — cargo by cargo disclosures only)	Type of state-owned oil sold (e.g. profit oil)	Contract # / p/o # / invoice #
NNPC	46.6	13/09/2013	NNPC share of TUPNI Akpo profit oil	COS/09/080/2013
NNPC	41.33	18/10/2013	NNPC equity lifting from NAOC JV	COS/10/092/2013

2. Who is buying the product?

Core information		Additional information	
Buyer	Beneficial owner of buyer	Incoterms	Load port, terminal and depot
Voyage Oil and Gas Ltd	Info not available	FOB	Akpo terminal
Sahara Energy Resources Ltd	Info not available	FOB	Brass terminal

3. What return did the country receive from the sale?

Core information					Additional information				
Volumes sold (barrels)	Revenues received	PI*: Official selling price	PI: Pricing option	Contract type	Fees, charges and credits	Forex rate	Payment receipt date	Payment account	Destination (sellers only)
996'499	$108'692'294.00	$109.09	Deferred	Term	-$25.00	n/a	15/10/2013	NNPCCBN JP Morgan Dollar Crude Oil Account	INDIA
320'588	$35'333'285.83	$110.21	Prompt by default	Term	$0.00	n/a	18/11/2013	NNPCCBN JP Morgan Dollar Crude Oil Account	GHANA

*PI — Price Information

1. Establishing the type of product, quality and when a sale took place is important because prices change depending on the grade and timing of the transaction.

2. Knowing who the state is selling its oil to and the point of collection is key to help understand who the government is dealing with in the marketing of its oil, and where it is loaded from.

3. Data on volumes sold and revenues received from the sale is the core information needed to understand how much oil the state is selling and what it gets in return.

4. Pricing and the method for determining prices are often issues of great public interest. This information is important to allow stakeholders to understand whether the government is getting a good deal from the sale.

5. To allow for accurate analysis of revenues received, details on exchange rates can be important as minor variations could cost the government significant revenues.

6. Knowing the payment receipt date and payment account help track the flow of money from the sale of the state's oil.

3. Progress in producing countries

How EITI countries are championing first trade transparency

FIVE YEARS AFTER the inclusion of sales of natural resources by the state in the EITI Standard, the overall direction of travel is positive. Through EITI reporting, countries including Albania, Cameroon, Chad, Colombia, Côte d'Ivoire, Ghana, Indonesia, Iraq, Mauritania, Nigeria, the Republic of Congo and Trinidad and Tobago have disclosed information about their revenues from their sale of oil and gas and how these are managed.

The results so far have included:

- More information on first trades by state-owned enterprises is being published, often for the first time.
- Significantly more granular first trade data, particularly for countries that have applied the EITI guidance. This has included sales data disaggregated by month (for instance Albania, Iraq and Mozambique) and by each date of sale (for instance Cameroon, Chad, Indonesia and Mauritania).
- In some instances, data collected and published has gone beyond what is required by the EITI Standard to cover pricing information and realised price data.
- Some countries provide information on the process for selecting buyers, including the criteria underpinning the allocation of trading contracts (for instance Albania, Chad, Mauritania, Indonesia, and Iraq and Mauritania.)
- Some countries are providing information that enables a better overview of the cash flows from the proceeds of first trades and allocation of revenues (for instance Albania, Indonesia and Nigeria).
- Some countries are reporting on "unconventional sales" (for instance oil-backed loans in Chad and Indonesia and Chad), swap arrangements of crude oil for refined products (for instance Nigeria) and allocation of crude oil for infrastructure projects (for instance Republic of the Congo).

Despite overall progress, disclosures to date across EITI countries also demonstrate that implementation has been uneven. Further efforts will be needed to ensure comprehensive first trade disclosures in producing countries. The following examples from a selection of EITI countries show how some countries and their state-owned enterprises having made substantial progress with improving transparency in first trades.

NIGERIA: Insights into management of a major revenue source

The oil and gas sector is the most important sector in Nigeria, providing 90% of the country's foreign exchange earnings and 65% of the government's budget revenue. Crude sales reporting from 2012 to 2016 has shown that Nigeria has generated USD 104 billion from the sales of crude oil and gas. Nigeria EITI has over the years provided detailed and disaggregated information on cargo-by-cargo lifting, pricing data, destination country, fees, charges and credit amongst others information. The granularity of information provided through Nigeria EITI reporting has enabled detailed analysis of data which has provided insights into the issues of crude sales by Nigerian National Petroleum Company (NNPC).[6]

The analysis of data through crude sales reporting has provided policy makers with information to assess the benefits and management of the country's oil and gas resources such as the losses incurred as a result of crude swaps and offshore processing arrangements of more than USD 2 billion, retained earnings by NNPC and issues with pricing of domestic crude sales. In 2016, Nigeria discontinued the crude swap and offshore processing arrangements. The Nigeria EITI Reports had consistently recommended this since the arrangements started in 2010. NNPC replaced the arrangements with 'Direct Sales Direct Purchase' to local and international refiners and traders, who in turn supply NNPC with equivalent worth of petroleum.

Given its importance for the country's economy, Nigeria EITI published a report focusing on the state's marketing of oil and gas in March 2019. The report provides the volumes collected, sold and proceeds generated from the state's share of oil production and disclosed significant additional information on the terms of sales and buyers. According to the data obtained from NNPC during the covered period, the total receipts from crude oil sales amounted to USD 13,176.8 billion. It includes a detailed list by cargo with 601 transactions recorded. The same applies to gas sales, which amounted to USD 1,318 billion USD. The report provides an overview of the oil and gas sector in the country, the types of contracts, the buyers and traders selection process and information about NNPC's participation in the sector. The report also includes a description of payments flows from oil and gas sales, pricing and valuation systems, the applicable audit assurances practices and some information on beneficial ownership of buying companies.

Based on these more comprehensive disclosures, the reporting process has highlighted areas where further work is recommended:

- Differences in crude oil price calculation
- Lack of public access to trading contracts
- Publication of list of Direct Sale Direct Purchase contractors
- Disclosures of the ultimate beneficial owners of the companies buying oil and gas from the state

CHAD: Understanding the impact of resource-backed loans on future revenues

The Hydrocarbons Company of Chad (Société des Hydrocarbures du Tchad (SHT) has disclosed detailed information on the sale of its oil to Glencore from 2013 to 2017. For each cargo departing from the Kiribi port, the EITI Reports provide detailed information on the volumes sold, the price, the amount of revenues, the amount deducted to repay government debts and the remaining amount transferred to the treasury.

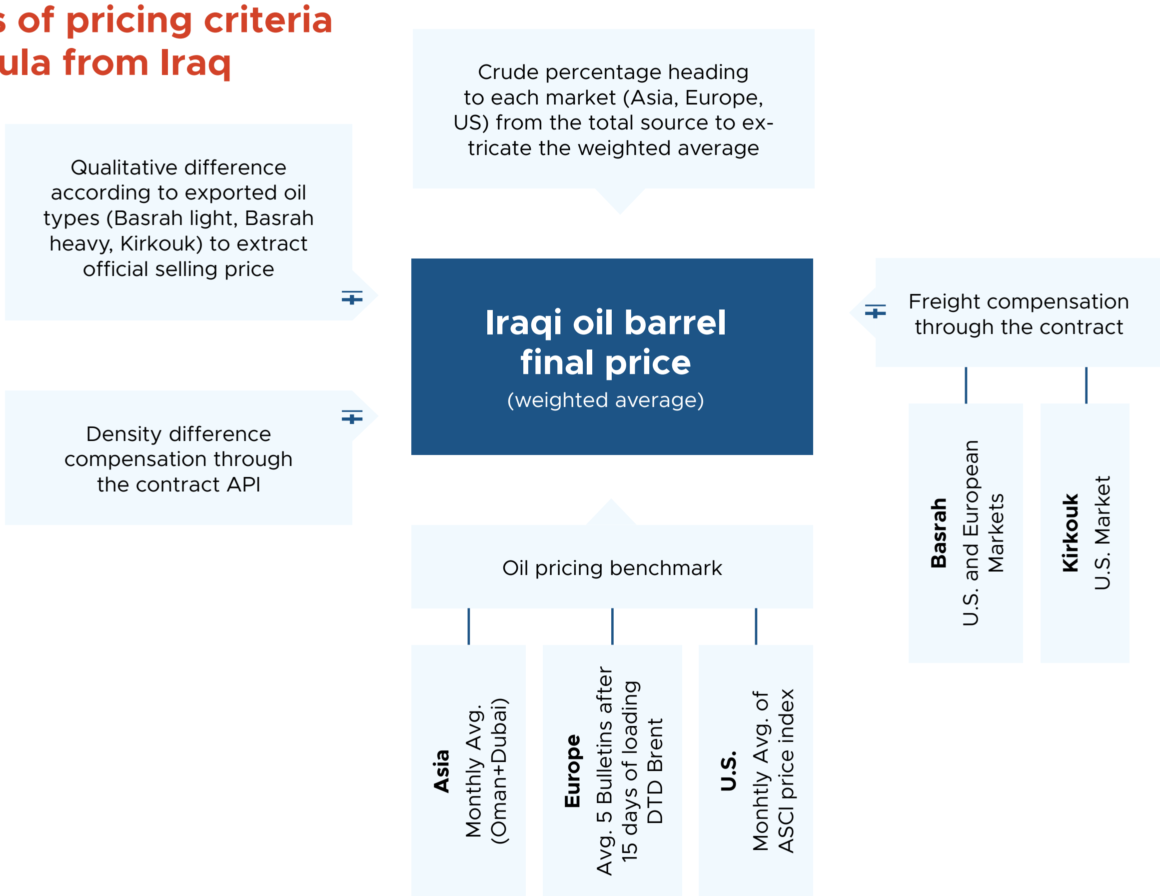
EITI Reports show that Chad borrowed USD 600 million in 2013 from Glencore, using future oil production as collateral for the loan. In 2014, Chad borrowed an additional USD 1.45 billion from Glencore to be repaid from the government's share of oil. Data disclosed in Chad's reports include the annual allocation of crude oil to Glencore to repay the loan. The data showed that Chad was paying over 90% of its oil revenues to repay the loan in 2015. The disclosed data was broken down by each of the seven instalments in 2015, showing the bill of lading number, the date of payment, the volumes of crude oil, the reference price and discount, and the monetary value of the crude oil allocation. The data further showed how the monetary value corresponds to what Chad owes to Glencore in terms of repayment of capital and interests, as well as payment on behalf of the government of transportation costs and cash-calls.

Following the publication of this information, the government has restructured the deal several times to make its debt payments more sustainable, most recently in the summer of 2018. Thanks to continued disclosures such as those found in Chad EITI's reporting, the government and civil society can monitor the progression of these loan repayments in the future.

IRAQ: Pioneering first trade disclosures

Iraq has been disclosing information on commodity trading through EITI reporting since 2011. All oil and gas produced in Iraq is the property of the state. The State Organisation for Marketing of Oil (SOMO) sells crude oil to international buyers and remits the proceeds to the Development Fund of Iraq, net of its costs and margins. Natural gas and crude oil earmarked for internal consumption are transferred to other SOEs in charge of transport, refining, distribution, power stations, with only the proceeds of the final sales of refined products remitted to the central treasury. Iraq's EITI Reports covering fiscal years 2009-2015 include reconciliation of oil sales disaggregated by buyer and the four main export destination regions.[7] The reports also include a description of the sales process, crude oil sale contract template, the buyer selection process and average monthly prices.

Examples of pricing criteria and formula from Iraq



Exported Barrel Pricing Formula

Exported crude oil barrel is priced as the following formula

Final Price (USD/Barrel)=

Certified reference oil price as per shipment destination (for the loading accepted month) + Price difference which is calculated on a monthly basis (official selling price OSP) + Price difference for density fluctuation (API) + Freight cost

Source: Iraq EITI (November 2016), Extractive Activities in Iraq 2015, p. 80.

INDONESIA: Complementing reforms and public oversight of commodity trading

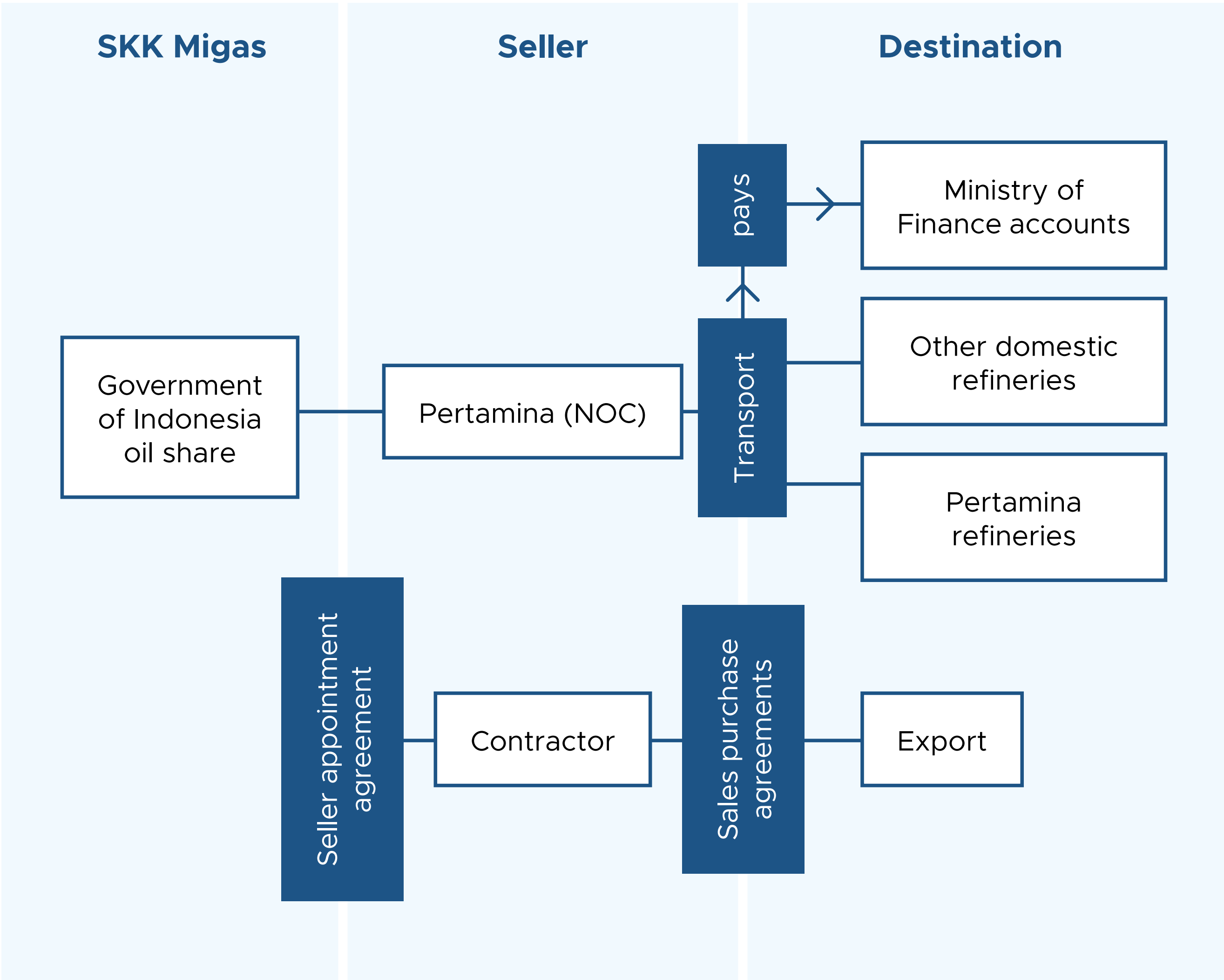
In 2015, commodity trading in Indonesia came under intense public scrutiny when fraudulent practices involving Petral, the trading arm of state-owned petroleum company Pertamina were uncovered. It was revealed that overpricing of commodities led Pertamina to pay imports at almost three times their real value, as well as deviating from proper bidding processes to limit competition and favour a few select traders. In the succeeding years, the Government of Indonesia has undertaken reforms for the country's petroleum industry which has included dissolving Petral. To complement their reform agenda and combat corruption related to their sale of oil and gas, the government decided to participate in the EITI's targeted commodity trading transparency efforts.

In January 2018, Indonesia EITI published a report dedicated to transparency in commodity trading, covering a set of 1,900 oil sale transactions reported at a total value of USD 4.74 billion by the petroleum sector regulator SKK Migas. The disclosures include the volumes sold and revenues received by the state, estimated prices, forex rate, payment receipt date and country of destination are disaggregated cargo by cargo. The report made the following conclusions and recommendations:

- **Opportunities to improve transparency in buyer selection**: The report only includes country destination, but not the names of buyers of oil and gas. It points out that a robust and transparently managed buyer selection process can help to mitigate the governance challenges and corruption risks that can arise when companies compete for the right to buy the state's share of production of oil.
- **Importance of disclosures on dynamically priced commodity trades:** The report explained how dynamically traded commodities – such as gas and LNG sales – should be included in future reporting. Transactions taking place on standardised commercial terms are of particular interest because of potential over or under pricing that might occur which makes dynamically priced commodities more susceptible to corruption.
- **Data points needed for further analysis**: The report showcased the need for additional data points to be reporting to allow stakeholders to fully understand what the state is receiving from the sale of oil and gas. This included information on invoice or Bill of Lading number to identify shipments and establish date of sales, pricing methods to understand whether government is getting a good deal from the sale, and payment date to help track the flow of money to the government.

As a follow-up to the report, the Ministry of Economic Affairs has officially requested data from Pertamina. The Anti-Corruption Commission (KPK) is scrutinising the findings of the report to help them in identifying corruption risks in Indonesia's commodity trading practices. The report also opened up discussions on the importance of disclosing information about Indonesia's importation of oil. While Indonesia's civil society is pushing for disclosures of these imports, SOE Pertamina expressed concerns that disclosing data on imports could affect competitiveness.

Oil sales and cash flows in Indonesia



GHANA: Confirming accountable procedures and promoting dialogue on pricing

Ghana published a report in August 2018 on the sale by Ghana National Petroleum Corporation (GNPC) of its share of production and the state's royalty share of oil and gas in 2015-2017.[8] GNPC used the reporting template developed by the EITI and went a step further by reporting oil sales across a three-year period. The report includes an overview of the legal framework governing the country's oil and gas production and of the key agencies involved in managing the production and sales of oil and gas on behalf of the government, as well as a description of the fiscal terms and shareholding of the main oil fields in Ghana and of how buyers of oil and gas are selected. This level of transparency allows for improved monitoring of SOE activities to ensure the state receives a fair deal.

The following four key conclusions were highlighted by the report:

- The process for selling the government's oil and gas in Ghana is based on a clear legal basis for GNPC's activities and for the roles of other institutions in the process. Each institution understands its role in the process and no examples of overlap of mandates or conflicting mandates were identified.
- GNPC process for selecting buyers is clear, with criteria for scoring each potential buyer to ensure only high-quality buyers are pre-qualified to participate in the sales process. Buyers with a strong local presence are preferred as 30% of the score weighting is allocated to local content. However, the criteria provide only guidance and the weightings may be adjusted to take into consideration specific circumstances. This may introduce a degree of subjectivity into the buyer selection process.
- Disclosing beneficial ownership of commodity trading companies is a challenge. The buying companies provided the name of the entity that acted as buyer without providing beneficial ownership information on the buyer entity. Knowing the identity of the buyers of oil will allow the government to enforce local content provisions and avoid conflict of interest in the selection of buyers.
- Price setting for oil sales is an area that caused debate among Ghana EITI stakeholders, as the report identified variation in prices achieved from a particular field. Improving the understanding of how gas sales and accruing revenues are managed is another priority for Ghana EITI's further work on first trade transparency.

CAMEROON: SOE disclosures going beyond the minimum

The Société Nationale des Hydrocarbures du Cameroun (SNH), the national oil company of Cameroon, has disclosed details of how it sells oil on behalf of the government in its 2016 EITI Report. Revenues received by the government from the SNH marketing of government shares in oil fields make up the most significant flow to the state budget from the extractive sector (about 63 % in 2016). The data is disaggregated cargo by cargo and includes the volumes sold, the price, the amount received, and the transfers made to the treasury, thereby bringing a high degree of transparency and accountability in the management of oil revenues. SNH also published the marketing of crude oil that belong to the state (in-kind revenues) or to the company (equity oil).[9]

Cameroon, state of budget revenue by flow

(En milliards de FCFA)	2015	2016	% 2016	Évolution en %
SNH-Mandat transfers	384,63	316,00	63,18%	(17,84)%
IS Oil	180,94	114,51	22,9%	(36,72)%
Transfer fees (COTCO)	36,20	31,95	6,39%	(11,73)%
Other tax revenue	60.49	37,66	7,53%	(37,76)%
Total	662,26	500,12	100%	(24.48)%

Cameroon EITI (February 2019), EITI Report 2016, p.8.

ALBANIA: Improving transparency in how the state chooses its clients

In Albania, a priority for first trade disclosures has been to ensure that the process for selecting buyers is clear and transparent. To this end, EITI reporting has provided a clear overview of the award of sales contracts and results of bidding rounds between 2013-2016.[10] The disclosures have included the volumes sold as part of the contract, the list of applicants, starting price for the bidding and the price agreed with the winning bidder. EITI reporting has further provided information on the type of oil sold by the government and the SOE Albpetrol, volumes sold and revenues received, an explanation of the pricing system and transfer and expenditure of the sale proceeds. As part of the targeted efforts on commodity trading, Albania EITI also published a commodity trading report in November 2018 seeking to provide a more comprehensive overview of how the state and the Albpetrol markets the state's oil.[11]

Summary of bidding rounds for oil sales contracts in Albania

Auction year	Quantity in ton	Auction starting price	Winning bid	Non-winning applicants	Access to procedure
2013	200,000	Brent/1.65 $bbl. + K	Consortium between "TPD — Trading Petrol & Drilling (NUIS L21807013N)" and "Interpetrol Ltd (NUIS L52013058A)" with K=0.12 $/bbl.	Europetrol Durres Ltd	Files in the Ministry of Infrastructure and Energy archive
2013	30,000	Brent/1.65 $bbl. + K equivalent to Brent x 60.61% $bbl. + K	Liona Sh.a. (NUIS I31731005C) with K=0.1 $/bbl.	No other applicants	Filed in the Albpetrol archive
2015	100,000	Brent x 72.51% – 5.55 $/bbl. + K	TPD — Trading Petrol & Drilling (NUIS L21807013N) with K=0.1 $/bbl.	No other applicants	http://Albpetrol.al/njoftim-ankandi-per-shitjen-e-naft-es-brut-sasia-100-000-ton/
2016	30,000	Brent x 69.54% – 3.53 $/bbl. + K	Porto Romano Oil Sh.a. (NUIS k51625501O) K=0.1 $/bbl.	No other applicants	Filed in the Albpetrol archive
2016	167,000	Brent x 70.48% – 4.12 $/bbl. + K	Porto Romano Oil Sh.a. (NUIS k51625501O) K=0.1 $/bbl.	No other applicants	Filed in the Albpetrol archive

Source: Albania EITI (November 2018), Commodity Trading Report, p. 10.

COLOMBIA: Regular disclosures on first trades

In Colombia, the government receives oil royalty payments in-kind and discloses and reconciles volumes of oil collected and sold, as well as the proceeds of these sales through their EITI disclosures. Given that all of the government's in-kind oil revenues are sold to a single buyer, the SOE Ecopetrol, the volumes and values of in-kind revenues are therefore disclosed by a single entity Ecopetrol. More detailed information is disclosed in Ecopetrol's annual report. Opportunities to ensure alignment between Ecopetrol's annual reporting and EITI disclosures are being explored to fully "mainstream" the EITI Reporting requirements related to SOEs.

4. Commodity traders' contribution to transparency

Corporate leadership on payments to governments

DISCLOSURE BY buying companies was implicitly encouraged under the 2016 EITI Standard. At the country level, proactive company reporting on the payments to government from the purchase of oil, gas and minerals remains marginal. Commodity traders have disclosed information on their payments to governments through the EITI process in Chad, Ghana, Iraq and Nigeria and some have provided aggregate figures in their annual reports.

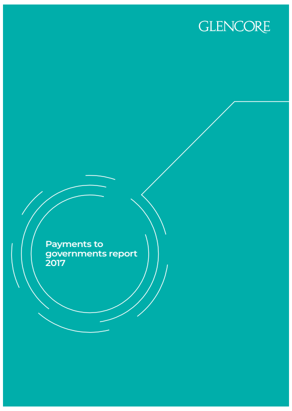
Since the introduction of the EITI Standard, three trading companies have formally joined EITI as supporting companies: Trafigura Group Pte. Ltd. (Trafigura),Gunvor Group (Gunvor) and Philia. The support of another major trading house, Glencore, predates the adoption of the EITI Standard as the company conducts significant upstream operations. Similarly, international oil companies with trading desks, such as BP, Equinor, Shell and Total are also long-standing supporters of the EITI. Engagement by buying companies with developing first trade reporting frameworks at the global and national levels is essential to ensure that reporting requirements are aligned with existing disclosures and reporting systems.

Trading companies have claimed commercial and reputational benefits from their support to EITI and disclosure of information about payments to governments for the purchase of natural resources. Among the reasons invoked were:

- A company's commitment to uphold progressive policies and practices.
- EITI's leading role in promoting transparency and accountability through a framework that preserves a company's legitimate interest in protecting the confidentiality and commercial sensitivity of information.
- A company's wish to align reports to the existing EITI framework, thus allowing payments made by companies to be compared directly to receipts published by EITI country governments.
- The opportunity to contextualise and complement information being disclosed by government and state-owned enterprises counterparts under EITI.
- Possibility to shape the development of disclosure standards and informing the policy debate in partnership with governments, state-owned companies and civil society.
- Improved transparency also facilitates access to capital from banks which are increasingly demanding higher standards of transparency.

Regarding the latter point, in the last months of 2018 Gunvor announced an innovative multi-million secured borrowing base facility that includes performance commitments related to the company's sustainability targets. Gunvor, along with its financing partner ING Bank, was the first energy commodities trading company to close a financing in which the interest rate will be dependent on the company's year-on-year improvements in areas such as transparency, governance and the environment. Specifically, with regard to transparency standards, the facility refers to reporting related to feedstock origination within the parameters of EITI.[12]

In 2014, **Trafigura** became the first independent commodity trading company to publicly support the EITI and to develop a disclosure policy in line with EITI Requirements. Since their first disclosures of payments to governments in 2015 covering 2013, the information reported has become more comprehensive, granular and timely (with only a one-year lag). In its 2018 Responsibility Report, which marked the fourth consecutive year of disclosure, the company reported USD 2.7 billion of payments made for purchases from national oil companies in EITI countries. The 2018 report also includes aggregate purchases from national oil companies of EITI countries with a load port outside the EITI, as well as 2017 aggregate purchases from national oil companies from non-EITI countries. The total value amounts to about USD 564 million and USD 30 billion respectively.[13]



Glencore, a company that has both extractive and trading operations, became an EITI supporter in 2011 and has since been reporting payments to governments related to extractive activities. In its 2017 Payments to Government Report, for the first time, Glencore disclosed payments to governments and state-owned companies for the purchase of natural resources.[14] The report shows that during the covered period, Glencore had paid a total of USD 1.45 billion for crude oil to state-owned enterprises in EITI countries. Over the same period, the company reported payments for crude oil to state-owned companies in non-EITI countries for USD 11.17 billion.[15] Notably, during the same reporting period Glencore disclosed total payments to governments in taxes and royalties for upstream operations for USD 4.5 billion.

Gunvor announced in 2018 that it was going to join EITI and that as a supporter of the initiative, it will disclose information about first purchases from national oil companies for crude oil, petroleum products, and gas.[16]

The precedent-setting disclosures by some of the world's largest commodity traders have demonstrated that transparency and commodity trading are not necessarily at odds. Through the approach proposed by EITI, transparency can be pursued in a commercially responsible manner without breaching a company's legal obligations vis a vis trading partners (confidentiality). It remains to be seen how the example set by a major commodity trading companies may ramp up pressure on fellow traders to follow suit.

A "supporting company" publicly supports the EITI and helps promote the EITI Standard globally and in the countries where it operates. There is also a set of "expectations" that EITI supporting companies have agreed to in June 2018. These include disclosures of taxes and payments to governments. Supporting companies that buy oil, gas and minerals from producing countries could extend their disclosures to payments to government for the purchase of oil, gas and minerals. With the public asking for increased transparency and accountability, this is an opportune time for more commodity traders to join the debate and actively support EITI at the global and national levels.

5. Next steps for EITI and first trade transparency

Future direction and targeted efforts

IN FEBRUARY 2019, the EITI Board agreed in principle to a number of improvements to the disclosure requirements applicable to governments (including state-owned companies) and buying companies. The new language, formally adopted and launched at the EITI Global Conference in Paris in June 2019, reflects emerging practice from the targeted effort and the recommendations in EITI guidance. EITI countries are now encouraged to be transparent about their processes for selecting buyers and the sales agreements. Such disclosures aim to contribute to a level playing field for industry players doing business with producing countries. The requirement also makes a more specific reference to resource-backed loans and loan repayments as part of the scope of the requirement. Importantly, the EITI Standard encourages disclosure of payments to governments by buying companies. Most of the improvements relate to voluntary, rather than mandatory, disclosures.[17]

Elaborated in close consultation and collaboration with stakeholders, the next steps toward greater first trade transparency for the EITI will include:

- **Supporting EITI countries and SOEs with systematic disclosures on first trades.** The long-term aim of the EITI Standard is that governments and SOEs increasingly publish the information required directly through their existing disclosure systems, rather than through EITI reporting. This will ensure that disclosures are timelier and more efficient. The EITI and members of its working group will continue to provide support to resource-rich countries that sell their own oil, gas and minerals in mainstreaming transparency in their systems. This will include disclosures throughout the whole first trade process, including the selection of buyers, the terms of the trades, the actual sales and related transactions and how the revenues are managed.
- **Encouraging buying companies to show commitment and action on transparency.** Engagement by buying companies at the producing country level is key to support EITI countries in meeting the EITI Requirements related to first trade disclosures. This includes taking part in the multi-stakeholder group and providing the information requested as part of the EITI process. The EITI will also promote the application of EITI Requirement 4.2 to buying companies that have yet to disclose information on their payments to EITI governments. By becoming EITI supporting companies, commodity traders and buying companies can also have a seat at the table and thus participate in the decision-making process within EITI, sending a strong signal to the global community about their commitment to transparency.

- **Moving into emerging issues on the first trade agenda.** A central focus of EITI on first trades to date has been on the volumes sold by governments and the revenues received from the sales. The targeted efforts helped expand the scope of transparency where there was demand for increased information on first trades by providing more relevant and detailed information to inform public debate. In some countries, this includes improving disclosures and public understanding of the process for selecting buyers, the terms of the first trades, and resource-backed loans and pre-payment deals which are becoming an increasingly significant source of finance for some developing countries. The EITI will continue supporting countries with developing innovative disclosure practices where there are needs and demands, and facilitate analysis and public debate about the findings from EITI reporting.
- **Improving and tailoring EITI guidance**. While the adoption of the EITI guidance on oil sales reporting is an important practical step toward increased transparency, the targeted efforts have already demonstrated the need for an update. The update should take into account the different legal and fiscal frameworks that govern how states manage their share of production of oil, gas and minerals (for instance through a production sharing system or licensing system). It will also have to consider the differences between the processes for marketing oil, gas and minerals. Lastly, more attention is needed on how to consider sales of equity production which is oil sold by SOEs on their own account rather than collected on behalf of the government. As part of this work, all interested parties will have to contribute to a common understanding of what information may be commercially sensitive to disclose in relation to individual transactions and pricing.

The Working Group on Transparency in Commodity Trading played a key role in supporting the targeted effort and in proposing updates to EITI Requirement 4.2. The Working Group is expected to continue playing a critical role in supporting the dissemination, adoption, implementation and monitoring of progress in meeting the EITI Requirement. In its future efforts on first trade transparency, the EITI will strive to collaborate with partner institutions to ensure complementarity with existing initiatives to improve reporting practices in commodity trading.

Endnotes

1 Glencore 2017 Payment to Government Report, https://www.glencore.com/sustainability/reports-and-presentations.

2 For instance, Natural Resources Governance Institute (2016, *Initial Evidence of Corruption Risks in Government Oil and Gas Sales'* and Public Eye (2014, *Big Spenders, Swiss Trading Companies, African Oil and the Risk of Opacity),* and organisations such as the Organisation for Economic Co-operation and Development (2016, *Corruption in the Extractive Value Chain: Typology of Risks, Mitigation Measures and Incentives*).

3 EITI Standard 2013 (*Requirement 4.1.c*). eiti.org/document/eiti-standard-2013.

4 EITI Standard 2016 (*Requirement 4.2*), eiti.org/document/standard.

5 EITI Guidance note 26 – Reporting on first trades in oil (May 2017), eiti.org/GN26.

6 Nigeria EITI Reports available from: www.neiti.org.ng/

7 Cameroon EITI Reports available from: ieiti.org.iq/

8 Ghana EITI Oil and Gas Commodity Trading Pilot (August 2018), eiti.org/document/report-on-ghana-eiti-oil-gas-commodity-trading-pilot.

9 Cameroon EITI Reports available from: www.eiticameroon.org

10 Albania EITI Reports available from: www.albeiti.org

11 Albania EITI Commodity Trading Report 2018, eiti.org/document/albanias-commodity-trading-report-2018.

12 Gunvor closes innovative US $745 million linked to sustainability targets https://gunvorgroup.com/news/gunvor-closes-innovative-us-745-million-facility-linked-to-sustainability-targets/

13 Trafigura 2018 Responsibility Report, https://www.trafigura.com/responsibility/responsibility-performance/2018-responsibility-report/.

14 Glencore 2017 Payment to Government Report, https://www.glencore.com/sustainability/reports-and-presentations.

15 Glencore, 2017 Payments to Governments Report, pp.17-18 http://www.glencore.com/sustainability/reports-and-presentations

16 EITI (18 April 2018), Gunvor becomes the second commodities trading house to support EITI, https://eiti.org/news/gunvor-becomes-second-commodities-trading-house-to-support-eiti.

17 This means that the progress made by implementing countries in disclosing information encouraged by the EITI Standard will be examined during EITI Validation, without consequences for the overall assessment of progress (unless it is to demonstrate that a country has gone "beyond" the minimum requirement).