

Oslo 3.mai 2017

Comments on SDSG's Validation Report of NORWAY

Reference is made to Sustainable Strategies Group's (SDSG) validation report on validation of Norway.

The MSG would like to refer to previous comments on "Report on initial data collection and stakeholder consultation by EITI International Secretariat" as those comments also are valid for SDSG's report. It is our view that an EITI validation should be done in a broader and national context. Norway is in this validation given rather low score on "MSG oversight" and "Outcomes and impact". SDSG argues that action under EITI Norway is very narrowly focused, there is no evidence of outreach events undertaken by government or companies to spread awareness of, and facilitate dialogue about the EITI Report across the country. These issues have been discussed continuously within the MSG. There are good reasons why the MSG has agreed on a narrow approach and limited outreach. Data and information presented in the Norwegian EITI-report is already available from other sources. There is already an open and lively debate in Norway about all issues related to the petroleum sector. The EITI report as such has no added value. Further, in Norway there are other democratic and open channels considered more suitable for policy discussions regarding the oil and gas industry. The Storting (Norwegian parliament) sets the framework for petroleum activities in Norway, partly through its legislative powers. All matters of principle, including major development projects, must be debated by the Storting. The Storting also supervises the government and the public administration. Norwegian stakeholders are regularly invited to comment on government proposals through open hearings. This includes hearings on legal and regulatory developments, consultations on opening of new areas for exploration, etc. These hearings are an integral part of the government's decision-making process. They guarantee the democratic right of all stakeholders to participate in public policy discussions and ensure that the views of all whose interests are affected by the government's decisions are known to the decision-makers. We do agree with SDSG that no country is immune from corruption and mismanagement and there is a constant focus on these issues

Comments on SDGS's specific assessments

#1.3 Civil society engagement. **Meaningful progress.** *"Requirement 1.3 expressly states that civil society must be fully, actively, and effectively engaged in the EITI process. Given the totality of circumstances, it is not possible to state that civil society is fully, actively, and effectively engaged in the EITI process."*

We disagree with SDSG. The EITI is about transparency, good governance and involvement from all stakeholders. Stakeholders in Norway are engaged on a daily basis in all issues related to the petroleum sector. There are ample democratic institutions and channels through which it is possible to deal with establishing or changing laws and regulations. The MSG is not part of this. An EITI validation of a country needs to look beyond the MSG.

#1.4 MSG governance and function. **Inadequate** *" Moreover, MSG*

representatives are appointed by the King—even if this is upon recommendation of the stakeholder groups, it means that industry and civil society do not completely control their appointment or designation of their own representatives.

As SDGS explains, the government could have ignored the lack of interest from PWYP, TI and Labour Union to appoint new members to the EITI MSG. It is however difficult to see how representatives from other part of the civil society would find it more relevant to spend time and resources on EITI MSG in Norway. Lack of interest from civil society underscores the fact that civil society finds other organisations and channels better suited to express views on petroleum related issues rather than spending time and resources in the EITI MSG. The EITI standards and validation need to reflect this.

#1.5 Work plan. *Inadequate progress; “there is little evidence of any efforts to consult key stakeholders on the objectives for implementation” and ...“there is no evidence of activities to related to expand the scope of EITI reporting or for implementing the scope of EITI reporting*

The comment from SDSG seem not to be substantiated. The following issues have been discussed over the past few years in the MSG (meeting agendas and minutes can confirm this):

- Expansion of EITI into the mining sector
- Assessment of payment types in the new EITI standard and relevance to Norway
- Mainstreaming (dialogue and consultation with EITI secretariat)
- Expanding the scope of reporting to include other payment types (e.g. sponsorships, PR and other costs that are not payments to governments)
- Beneficial ownership (dialogue and consultation with Ministry of Finance)

Further, we refer to previous comments and underline that the work plan has been discussed and agreed by the MSG.

#2.4 Policy on Contract Disclosure *Meaningful progress " The Standard requires that the EITI Report document any reforms that are planned or are underway, and the Initial Assessment finds that this requirement was not met*

We do not understand the SDGS's argument as we in the EITI-report have explained our licence system and with a link to where you can find further information. We are not aware of any undocumented reforms or planned reforms.

#3.3 Export Data Insufficient Information *"Assessment does not provide the information necessary to reach a conclusion on this requirement. Specifically, the Initial Assessment does not refer to 2014 data and does not state whether the 2014 data is disaggregated by commodity and by state/region".*

Reference is made to our EITI-report 2015 with data for 2014 page 12; *"Figure 5 shows production numbers until 2014. According to www.norskpetroleum.no/en, the value of exported petroleum in 2014 was about 550 billion NOK, which corresponds to 46% of the total Norwegian export. Statistics Norway reports that the export value of crude oil was 278 billion NOK and the export value of natural gas 224 billion NOK. Average Brent Blend was 98 USD per barrel (621 NOK per barrel). In the Revised National Budget for 2015, it is informed that the average realized gas price in Europe has been approximately 2 NOK per standard cubic meter (Sm3), after seeing a decline during the first half of 2014."* We do not understand what more is required.

#4.2 In-kind revenues. *Meaningful progress* "A Provision 4.2 requires that sales of state production be "disaggregated by individual buying company and to levels commensurate with the reporting of other payments and revenue streams." The reported data here is not disaggregated by buying company. Accordingly, progress is meaningful".

It is important to reiterate our previous comment on this paragraph, as it might be a misunderstanding of SDFI and how it is sold. The state does not have in kind revenue. The state has a direct financial interest (SDFI), pays its share of investment accordingly, and gets its share of production. SDFI's oil and gas are sold together with Statoil's volumes and receives the same price as their volumes. Statoil is not a "government agency" but a public listed company. Statoil operates in the market on the same conditions as any other commercial company. The name of the buyer of each cargo is often viewed as commercial information and companies are not obliged to publish this. Volumes of oil and gas sold, income as well as the average prices are well documented in Petoro's annual report and included in the EITI-report. Further, Statoil reports all sales volumes, types and prices in its financial reports (20F)

#4.4 Transportation Revenues *Meaningful progress.* "The MSG has not determined whether transportation revenues are material or set a reporting threshold for transportation revenues"

Transportation revenue is not a separate revenue stream to the government. Companies pay taxes on a net profit base. Transportation costs and revenues are not separated out. We also refer to comments made by the EITI-secretariat in the Report on initial data collection where the system has been further explained. Again, we think it is important to understand and validate each country in a national context.

#4.7 Level of Disaggregation *Meaningful progress* "As the Initial Assessment notes, the data is not disaggregated by government entity. In addition, it does not appear that the MSG and the EITI Report discussed project-level disaggregation nor pertinent United States Securities and Exchange Commission (SEC) or European Union guidelines".

The data is disaggregated. In figure 10 in our EITI-report, you find an overview of the revenue streams and which government agency receives the different type of revenue. In the Appendix' there is one table for each revenue streams. As regard project-level disaggregation, as explained before, our tax system is based on a net profit base and companies do not pay taxes on a project-by-project basis.

#4.9 Data Quality *Meaningful progress.* "The TORs for the EITI Report are not in line with the Standard TOR for the Independent Administrator. Assurances of data quality agreed by the MSG and IA are delivered and adequately described".

The MSG will just reiterate its previous comments that we have difficulties understanding how and where **The Standard Terms of Reference for Independent Administrators** differentiate from Norwegian MSG's process of selecting IA, our contract (ToR) with the IA and cooperation between MSG and IA in preparing and finalizing the report. We also refer to the EITI secretariat and their Report on Validation where it's stated that "Norway does not use the Standard TORs, and as the rest of this assessment shows this has not generally hampered Norway in providing the information required by the Standard." See more specific comments in the validation report.

#7.1 Public debate inadequate. *"We disagree that Norway has made meaningful progress and instead find that progress is **INADEQUATE**. Aside from posting the EITI Report (produced in Norwegian and English) online and producing paper copies that are, according to the APR, "made available," there is no evidence of outreach events undertaken by government or companies to spread awareness of, and facilitate dialogue about, the EITI Report across the country, and there have been few outreach events by civil society since an event in 2010. We do note, however, that, according to the MSG's comments on the Initial Assessment, PWYP Norway organized consultations with civil society in 2014 and 2015, which likely contributed to dialogue about the EITI in Norway. However, the MSG expressly agreed not to organize any specific event in relation to the release of the most recent EITI report. It does not appear that the EITI Report has been actively promoted by the MSG since 2010. We reviewed the MSG's comments on this Provision, which confirm that the MSG has discussed but decided not to undertake public outreach activities; the MSG does not see a role to fill on this point. Progress is inadequate.*

Reference is made to previous comments on #7.1 and the introduction to this paper. The MSG agrees that in Norway there are other democratic and open channels considered as more suitable for policy discussions regarding the oil and gas industry. This reflects why the MSG has not taken an active role in policy debate and outreach. The Norwegian MSG has focused on transparency and to check that requested information and data under the EITI standard is available.

It is also worthwhile mentioning that stakeholders over the last few years have been heavily involved in the process of establishing national requirements on country –by-country reporting (CCR). Norway has, probably as the first country in Europe, put into force national requirements on country-by-country-reporting (CCR). The Norwegian CCR-requirements do, however, go further than the EU-legislation by requiring expanded reporting obligations. In addition, the purpose of the Norwegian CCR-legislation has been further expanded to highlight unwanted tax evasion. New and additional reporting requirements to further promote this purpose, were put into force as late as 1 January 2017, and build upon new reporting requirements in the EU Commission directive proposal (2016) 198 final.

#7.4 Outcome and impact of implementation. *Meaningful progress,*

MSG refer to previous comments to #7.4. Further, Norway has now sent its application for mainstreaming and adapted implementation.