Sustainability reporting guidance for the oil and gas industry

Advancing environmental and social performance across oil and gas

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Legal note

This voluntary guidance document (Guidance) is designed to serve as a resource for interested companies; the indicators and information referenced in this work do not establish an industry standard as to the nature of a company's public reporting practice. The recommendations in this Guidance on how to report on a particular issue are addressed to those companies who choose to voluntarily include that issue in their sustainability reporting and terms such as 'the reporting company should ...' are to be understood in this sense.

The terms and definitions used in this document are not necessarily the same as terms and definitions used in various statutes, rules, codes or other legal documents. Users and readers of this document should refer to relevant legal sources or consult their own legal counsel for explanations as to how the terms and definitions used in this document may differ from the legal terms and definitions (e.g. spills and hazardous wastes) used in their particular areas of operation. Anything in this document regarding voluntary reporting of indicators is not intended to imply that any of the indicators are required to be reported under any national, local or other law. Furthermore, it is not intended to serve as a substitute for applicable public reporting requirements and regulations. Any company reporter that has a question as to whether or not reports that follow the information contained herein will meet any specific reporting requirements applicable to their particular operations should consult with the reporter's own legal counsel.

A cautionary statement regarding performance indicators

Aggregated, company-level, non-financial performance data, developed using the indicators in this Guidance, can be informative for comparing relative performance among different companies, such as benchmarking safety incident statistics across the oil and gas industry. A company can use such comparisons to evaluate its own performance relative to peers, and identify areas for potential improvement. However, limitations to comparability exist due to various factors including the different methods companies may use to measure, normalize and report specific indicators. Although efforts have been made throughout the Guidance to improve comparability, report users are advised to exercise caution when using data from sustainability reports to compare performance. For example, comparing two companies that report greenhouse gas emissions on a different basis (e.g. equity share vs. operated) could be misleading regarding actual performance. Specific indicators from similar operations can sometimes be usefully compared to help performance management. However, the company-level, aggregate data typically reported in sustainability reports may not provide adequate comparability for some metrics. Where this Guidance mentions comparability, it is not intended to imply that data in sustainability reports, and therefore companies' performance, are always directly comparable.

Furthermore and separate from company sustainability reporting, industry associations and others may choose to implement specific performance benchmarking studies, which may build upon the indicators in this Guidance.

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OGCI welcomes the joint efforts to update and continue to standardise sustainability reporting guidelines, helping to provide a consistent foundation of metrics for the oil and gas industry as it works to respond to the climate challenge. OGCI will build on these recommendations as we continue to improve our aggregated reporting and enhance transparency of our members’ strategy, performance and ambitions through third party review of our data.
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Supporting sustainable development
A foreword from the oil and gas industry associations

We are proud to introduce the fourth edition of our Sustainability reporting guidance for the oil and gas industry (the ‘Guidance’).

Member companies of IPIECA, the global oil and gas industry association for advancing environmental and social issues, the American Petroleum Institute (API), and the International Association of Oil & Gas Producers (IOGP) have been collaborating on this important Guidance since 2005. Much has changed since our last update of this Guidance in 2015.

Energy and climate

We recognise that society is expecting rapid solutions to the challenges we face, especially our industry’s role in reducing greenhouse gas emissions. Access to affordable, reliable energy is essential to fuel economies and improve living conditions globally. At the same time, providing such access comes with the momentous challenge of reducing the risks of climate change.

Our industry is committed to being part of the solution. One of the most relevant contributions of the oil and gas industry is providing affordable, reliable, sustainable and modern energy. We believe it is our responsibility to deliver solutions to future lower carbon energy systems and to reduce greenhouse gas emissions.

We understand that the energy system will change. Launching the fourth edition of the Guidance is evidence of our member companies’ commitment to reporting and transparency about how they manage climate-related and broader sustainability-related opportunities, impacts, and risks.

Contributing to sustainable development

The energy transition fits into a broader picture of sustainable development, which addresses all the most urgent economic, social, and environmental challenges of this generation. These are reflected through the 17 Sustainable Development Goals (SDGs), agreed by all countries, for overcoming poverty while protecting the planet and ensuring that all people enjoy peace and prosperity by 2030.

Our industry continues to collaborate with stakeholders – including governments, non-governmental organizations (NGOs), and investors – on many topics included in the SDGs. Our member companies often work through our organizations to update frameworks such as this Guidance to provide practical support for reporting of our industry’s contribution to the SDGs.

Driving transparency and consistency

This fourth edition marks over fifteen years of collaboration between the member companies across our three associations around the most relevant sustainability issues and indicators to report on. IPIECA, API, and IOGP believe that it is essential to continue providing this robust industry-developed framework to help companies shape the structure and content of their sustainability reporting, particularly for companies that are just starting to report.

Society’s expectations are evolving. Recent years have been characterised by a growing interest in sustainable investment, including greater focus on the risks and opportunities driven by the potential acceleration to a lower-carbon future. Companies need to manage both the transition to a lower carbon economy and the physical risk of a changing climate, and these twin challenges are increasingly of interest to investors and lenders. Sustainability reports are a key enabler...
to provide decision-useful information and can help to foster understanding and collaboration with a wide range of stakeholders. Our Guidance supports understanding and collaboration by encouraging reporters to keep their stakeholders informed about their governance, strategies, risk and opportunity management, and performance.

This revision of the Guidance represents consensus from our members on the sustainability issues relevant to our industry and aims to encourage consistency and continuous improvement in reporting. The industry’s commitment to this project is evidenced through the substantial participation in the update, as noted in the acknowledgements on page xi.

External engagement

This fourth edition also reflects feedback from stakeholders beyond our industry. We received this feedback through a public consultation process. We engaged an independent external stakeholder panel, comprised of leading environmental, social and financial experts, to advise us on the process and content of the Guidance. The panel included leaders from banks and investors reflecting the increasing focus on sustainable finance and the keen interest in reporting from this community. We also looked for balance across subject matter expertise, experience, and geography. The stakeholder panel engagement for the 2020 Guidance brought different perspectives to the table and contributed to many of the significant updates.

Looking ahead

The companies in our industry are well aware of society’s expectations and the many opportunities and challenges that the future holds. Navigating these successfully is in each company’s interest. Demonstrating resilience through robust reporting and communication is key going forward.

Launching the fourth edition of the Guidance is only one milestone of this journey without a finishing line. We anticipate updating certain sections of this Guidance on a frequent basis in order to respond to an evolving business and reporting landscape.

IPIECA, API, and IOGP also aim to strengthen the relevance of this Guidance to serve not only as a practical tool for reporting but also to enable and enhance engagement with stakeholders across society as we collaboratively navigate the energy transition.

KEY CHANGES FOR THE 2020 UPDATE

- A new modular structure enabling faster updates to reflect industry progress on specific topics or important external developments.
- Creation of new ‘key points to address’ that give practical recommendations on developing a report’s narrative. For example, to address new reporting frameworks (such as the UN Sustainable Development Goals), or legislative change (such as modern slavery requirements in some jurisdictions), or increased investor focus on Environment, Social and Governance (ESG) topics.
- Coverage of 21 sustainability issue areas supported by 42 performance indicators – compared to 12 issues and 34 indicators in the 2015 Guidance.
- Each indicator has been updated with two revised tiers of reporting elements, ‘Core’ and ‘Additional’. The Guidance retains 52 elements previously categorized at the Common level, while elevating or adding 68 elements to the new Core level that reflect the extensive range of current sustainability issues that are typically material for all companies to report. A further 190 Additional elements have increased the total number of reporting elements by more than 50% for this update, encouraging companies to improve the breadth and transparency of their reporting.
- As well as new indicators covering governance and strategy, risks and opportunities, lower-carbon technology and methane, the major revisions within the Climate change and energy module incorporate the most recent IPIECA climate change reporting framework and has been informed by the recommendations of the investor driven Task Force on Climate-related Financial Disclosures (TCFD).
- A new module on Governance incorporates guidance on business ethics, to complement the other modules.
A joint statement from the independent stakeholder panel

As part of the Guidance update process, the IPIECA Reporting Working Group (RWG) convened a panel of independent experts in sustainability reporting practices relating to the energy industry, as had been done for the 2010 and 2015 editions. As knowledgeable members of the reporting community, the panel represents the views of typical report reader groups: investors; business and industry bodies; environmental and community-oriented NGOs; and multilateral institutions.

The panel’s role was to help ensure that the updated Guidance adequately captures the key sustainability reporting challenges facing the sector and its stakeholders. By providing challenge and comment that informed the content of the Guidance, the panel helped to ensure that the Guidance offers the best possible support for reporting organisations in delivering transparent, balanced and useful sustainability data and information.

The following is the joint statement from the Independent Stakeholder Panel.

As part of the development process for the fourth edition of this *Sustainability reporting guidance for the oil and gas industry* (the Guidance), IPIECA’s Reporting Working Group convened an ‘Independent Stakeholder Panel’ (the Panel) of external specialists to comment on successive drafts and provide insights about how external expectations of the oil and gas industry’s sustainability reporting are evolving.

The Panel members have expertise in investment banking and financial services, corporate transparency and sustainability reporting, law, environment and conservation, climate change, business and human rights, analysis of ESG (environmental, social and governance) performance in multinationals, corporate risk analysis, and the development of international corporate responsibility and reporting standards. The Panel members have held and hold leading roles in a range of organisations, including oil, gas and mining companies, investment banks, non-profit organisations, sustainability consultancies, government policy teams and universities.

Shortly after the Panel’s creation in March 2019, several members joined a face-to-face dialogue on sustainability reporting with representatives of IPIECA member companies. The Panel subsequently provided written comments on both the first and second drafts of this Guidance. Panel members also met with IPIECA’s Reporting Working Group for a detailed discussion about the content of the Guidance.

Changes to external reporting frameworks, increasing public expectations and tightening legislation, combined with oil and gas companies’ wish to continue improving their sustainability reporting, have all influenced the revised content of the Guidance. The Panel acknowledges the significant improvements on the 2015 edition.

We are pleased that two very important topics are now standalone modules: climate change and energy, and governance and business ethics. It was timely to give these topics greater profile in the Guidance: oil and gas industry stakeholders are increasingly seeking to understand how companies take management decisions about both climate change strategy and other aspects of ESG performance.

Another improvement is the new modular structure, which will help users to find information on specific topics. This structure will make it easier to update individual modules in future without having to update and re-publish the entire Guidance.
The editors have also reduced jargon, simplified the language and provided concise practical advice on what companies should include in their report narratives. These enhancements are especially helpful to users whose first language is not English, and to companies who are new to sustainability reporting.

The reporting elements within each indicator now contain only two tiers ('core' and 'additional'), instead of the previous three. This improves clarity and simplicity, especially for companies who are new to sustainability reporting. It also encourages companies to demonstrate progress by incorporating the additional elements into their reports over time.

New indicators include climate governance and strategy, protected and priority areas for biodiversity conservation, and community grievance mechanisms. The content of many existing indicators has been improved, with clearer and in some cases more exacting reporting elements. In some indicators, reporting elements that were formerly ‘additional’ are now ‘core’, reflecting external expectations that these elements are essential to sustainability reporting rather than peripheral.

We are pleased that our feedback contributed to the greater emphasis on metrics and targets in the Guidance, for example in the reporting elements for the climate change and energy indicators. This reflects a growing expectation that companies should publish targets for a range of ESG indicators and report progress. We also welcome the stronger emphasis on how companies are preparing for the energy transition in a just and inclusive manner and aligning business models to support the Paris Agreement.

However, the Panel notes that using this Guidance is still merely voluntary for IPIECA, IOGP and API member companies. This situation has not changed since the 2015 edition. Although most jurisdictions still require only limited sustainability reporting, regulation and societal expectations are growing, and companies can expect non-financial reporting requirements to increase in many jurisdictions. We therefore believe that membership of IPIECA, IOGP and API should include a firmer commitment that companies will follow the sustainability reporting guidance that they have helped to create. At the time of writing, sustainability reporting amongst a substantial proportion of member companies does not meet the expectations in their own industry guidance.

In the climate change arena, the recommendations of the TCFD (Task Force on Climate-related Financial Disclosures) have rapidly gained influence since its inception. The Panel believes that the TCFD recommendations should have considerably more prominence in the Guidance. Current trends also indicate that many key stakeholders for this industry view information on Scope 3 emissions as a core aspect of credible sustainability reporting. Future revisions will need to address these points.

In the broader sustainability arena, the UN SDGs (Sustainability Development Goals) are increasingly influential, and the oil and gas industry can play a key role in progressing these. Future editions of the Guidance may need to recommend that companies give more emphasis to the SDGs in their sustainability reporting.

For investors and ratings agencies, sustainability reports are an important source of information for their assessments of oil and gas companies’ ESG performance and strategy. All stakeholders, and particularly investors, need coherent communication from companies on how they are addressing climate change as a strategic business risk. This information increasingly influences investors’ portfolio selection and capital allocation decisions.

Investment institutions’ scrutiny of the oil and gas industry reflects the priorities of their own shareholders and other stakeholders, who are increasingly pressing them to justify, reduce or cease investing in oil and gas because of climate change concerns. Some oil and gas companies are not yet disclosing how climate change will affect their business, and they are not demonstrating active management of climate change risks to their resilience and viability. This information gap reduces investors’ confidence that they will continue to receive attractive returns and makes it hard to resist the demands to decarbonise their own portfolios.

Lack of data and poor-quality information negatively affect how investors, ratings agencies and regulators perceive the industry. Companies therefore need not only to improve their management of risks from climate change and other ESG issues, but also to report and explain their year-on-year progress with industry-agreed consistent performance metrics. These need to be comparable across the industry, so that investors and other stakeholders can systematically compare different companies’ performance. Publishing targets and KPIs on key topics and then reporting progress against them can be challenging for companies and puts pressure on them to deliver; but they are an important part of convincing stakeholders that the industry can remain economically resilient in a changing world.

This Guidance contains much excellent advice. Its long-term benefit depends entirely on its implementation by the industry. Transparency is an essential part of overcoming the trust gap between the industry and society. We encourage oil and gas companies to embrace sustainability reporting as not merely a duty, but an opportunity to communicate to investors and other stakeholders that they understand and are addressing their ESG risks and opportunities in a way that makes them viable and valuable corporate citizens.
Acknowledgements

The information within this document was developed under the auspices of IPIECA, API and IOGP. It represents the work of the IPIECA RWG, composed of 80 representatives from 28 companies and four trade associations. A Guidance Update Task Force, set up by the RWG, comprised 18 representatives from 12 companies and three trade associations. The task force, together with many technical working groups within IPIECA, API and IOGP, oversaw and provided input to the update process.

The document benefitted significantly from the input and review of an independent Stakeholder Panel, which met formally with the RWG and contributed throughout the process. IPIECA, API and IOGP would also like to thank the organizations and individuals that responded during the public consultation period in October / November 2019. Their comments were of substantial value to the revision. In addition, we would particularly like to thank Bill Boyle (writer), Derek Smith (writer), and Rikki Campbell Ogden (designer).

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