
**EXTRACTIVE
INDUSTRIES**
in the UK



UK EITI Annual Progress Report 2018

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Introduction

The Extractive Industries Transparency Initiative (EITI) is an international movement aimed at highlighting corruption and financial mismanagement in the exploitation of oil, gas and mineral resources. EITI is principally aimed at developing countries where there are real concerns over the stewardship of often abundant resources. EITI's work helps these countries manage their natural resources for the long-term benefit of their citizens.

Countries that implement the EITI share a common belief that the prudent use of natural resource wealth should be an important engine for sustainable economic growth that contributes to sustainable development and poverty reduction.

The UK's commitment to participate in EITI was announced during its G8 presidency in May 2013. The first meeting of the UK's Multi Stakeholder Group was convened in October 2014 and a year later the UK was recognised as a candidate country. In accordance with the requirements of the EITI Standard, the UK's fourth annual EITI report was published on 25 February 2019. The report not only highlights the sizeable contribution that the sectors make to the UK economy, it demonstrates that those sectors are delivering growth for Britain in a transparent and accountable way.

The extractive industries are an important part of the UK economy, contributing a gross value added (GVA) of £27 billion in 2018. In 2018, according to the latest ONS data, the extractives sector was directly responsible for 60,000 jobs with many more supported in the industry's wider supply chains. The UK was the world's 21st largest producer of oil and gas, with upstream activity supporting hundreds of thousands of jobs in Scotland and across the rest of the UK.

The UK's continued participation in EITI helps maintain momentum in the Government's drive for greater transparency at home and worldwide, which is vital in underpinning business confidence, and in tackling international corruption and economic crime.

Foreword

Welcome to the Annual Progress Report for the UK Extractive Industries Transparency Initiative (EITI). The report provides a snapshot of the activities of our Multi-Stakeholder Group (MSG) and EITI Secretariat during 2018.

2018 was an important year for UK EITI, with the validation of the UK against the EITI Standard starting during the summer and a major mainstreaming scoping study being commissioned and its recommendations put before the MSG for approval. The validation report was received in May 2019, followed by the independent validator's report a few weeks later. The scoping study was approved by the MSG in January 2019 and published in March 2019. We intend to take forward the recommendations of these reports during 2019.

We published our 4th UK EITI report in February 2019, which sets out reconciled data for payments between extractive industries and Government over 2017. Although the report was published in early 2019, the majority of the preparation and research was carried out in 2018 by the various sub-groups consisting of representatives from industry, civil society and government. I would like to take this opportunity to thank the 39 oil and gas and 19 mining and quarrying companies which participated in this process, which I think reflects the importance of EITI to the sector. I would also like to thank the MSG representatives who devoted a great amount of time and energy to ensure the successful publication of the report.

The 4th report broke new ground in a number of ways. First, it was the result of a considerably streamlined process compared to its predecessors. The MSG intends to build on this by further streamlining data capture and pushing to publish the results in ever more timely fashion. Secondly, it marked the start of a move away from standalone PDF documents to more accessible online formats. We will build on that in 2019 by looking to establish a fully independent UK EITI website, allowing us much greater flexibility than our current gov.uk host site allows. Finally, the run up to the report marked a turning point in the focus of the MSG, away from internal debates over governance, towards a more outwards looking agenda – getting back to our core purpose – raising awareness and informing public debate.

2019 will be a busy and, hopefully, fruitful year with the MSG taking forward both the recommendations of the validation report and the mainstreaming scoping study, as well as upping our game on communication and outreach. We also need to ensure that the MSG takes on board any changes required in reporting and implementing EITI by the revised 2019 Standard. All in all, an exciting and challenging time ahead.

Matthew Ray

Chair of the UK EITI Multi Stakeholder Group

1. General assessment of year's performance

Overview

The MSG met during six times during 2018. Minutes from all MSG meetings as well as other useful information can be found on the UK EITI webpages:

<https://www.gov.uk/government/groups/uk-extractive-industries-transparency-initiative-multi-stakeholder-group>

To correspond with the reporting package being issued to companies, a detailed guidance page was also created for companies:

<https://www.gov.uk/guidance/extractive-industries-transparency-initiative>

MSG Membership changes

The UK Secretariat welcomed John Emeruwa, from the Department for Business, Energy and Industrial Strategy, who replaced David Leitch as the UK EITI National Co-ordinator in November 2018.

The industry and civil society constituencies remained unchanged throughout 2018.

In previous years a significant difference of views had arisen within the civil society constituency concerning how civil society should be represented at the MSG. Despite considerable effort and dialogue over 2017, a solution had not been found by the end of that year. As a result, in late 2017 the Chair invited civil society groups to make nominations for temporary representation for a period of 12 months, beginning January 2018. Though not all groups took up that offer, constructive dialogue continued with those that did not about finding a lasting solution. As a result, we anticipate that a new nomination process for the civil society constituency will be put in place during the summer of 2019, providing a sustainable framework for ensuring fair and diverse civil society representation for future years.

Terms of Reference

The MSG Terms of Reference did not change throughout 2018 and remained in line with the EITI Association's Code of Conduct.

Independent Administrator

The Independent Administrator (IA) remained Moore Stephens during 2018. However, their contract ended on 28th February 2019 and a tender for a new Independent Administrator contract was issued in the Spring of 2019.

MSG Sub-groups

The detailed work on UK implementation continued to be taken forward by sub-groups, which develop policy and make recommendations for discussion and agreement at MSG meetings. Sub-groups consist of representatives from each constituency, with additional experts being invited to participate, if required.

The main sub-groups that met in 2018 covered the following areas: sectoral information, reconciliation, communications and validation. Issues related to beneficial ownership and the EITI process for companies were covered within the reconciliation sub-group.

Sectoral sub-group

The sectoral sub-group met formally five times. The subgroup agreed a number of proposals to improve the presentation of the report as a whole, including a more concise report consisting of the Reconciliation data and a "State of Industry" chapter.

The background sectoral chapters were split into five distinct standalone chapters covering background information on the extractive industries, background information on oil and gas, background information on mining and quarrying, approach and methodology and revenue allocations. These were published on the UK EITI website along with the report and background data files.

Reconciliation sub-group

The Reconciliation sub-group, chaired by our HMRC representative, met five times in 2018. This sub-group was responsible for finalising the reporting package and making recommendations on methodology to the MSG ahead of templates being issued.

The subgroup began to discuss and draft proposals for the exclusion of a number revenue streams from future UK EITI reporting. These proposals will be put to the MSG for discussion in early 2019.

Communications sub-group

The communications sub-group met once. The sub-group discussed plans for raising awareness of the publication of the 4th UK EITI report and more generally UK EITI. Ideas included using existing industry reports and events to publicise our work.

The group also agreed the branding “Extractive Industries in the UK” which will be used for branding future UK EITI publications, online products and events.

Validation sub-group

The validation sub-group held a meeting in April 2018 and agreed that a gap analysis paper based on the International Secretariat feedback should be discussed and actioned by the MSG and a scoping study on mainstreaming should be commissioned.

Methodology

Oil & Gas

The following payment streams were included in the reconciliation of payments made/received in 2017. A combined total for Ring Fence Corporation Tax and the Supplementary Charge; Petroleum Revenue Tax (including any Advance Petroleum Revenue Tax); petroleum licence fees; the Oil and Gas Authority Levy; and payments to The Crown Estate (TCE) and the Crown Estate Scotland (CES) in respect of pipelines operated by companies that are engaged in UK extractive activities.

Mining & Quarrying

The following payment streams were included in the reconciliation of payments made/received in 2017: mainstream corporation tax; extractive-related payments to TCE, CES and the Coal Authority and monetary payments to Local Authorities as part of planning obligations.

Beneficial Ownership

All companies incorporated in the UK are now required to report under the People with Significant Control rules.

The UK EITI MSG agreed to incorporate beneficial ownership disclosure as an ongoing reporting requirement. Accordingly, companies reporting under UK EITI were asked to disclose their beneficial owners.

For all 58 reporting templates received, companies submitted a beneficial ownership form. A total of 17 of these companies were privately owned and made material payments to the UK Government under UK EITI.

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UK EITI Validation

The validation of the UK, carried out by the EITI International Secretariat, was intended to provide all stakeholders with an impartial assessment of whether EITI implementation in the UK is consistent with the provisions of the EITI Standard. The validation report covered:

- impact of EITI in the UK
- implementation of activities encouraged by the EITI Standard
- lessons learnt in EITI implementation
- any concerns stakeholders have expressed
- recommendations for future implementation of the EITI

The validation assessment team visited the UK from 19-26 September and met with stakeholders from across the extractive industries.

The initial validation report was provided in draft to the MSG in early May 2019 with the independent validators report following on a few weeks later.

Mainstreaming

EITI participating countries are encouraged to explore the extent to which the EITI Standard can be achieved through the systematic or 'mainstreamed' disclosure of data by companies and public authorities. The MSG approved the commission of a scoping study to examine the mainstreaming possibilities for UK EITI last year.

The terms of reference for the study were based closely on the template developed by EITI's International Board and Secretariat.

The final version of the study has now been approved by the MSG and is available with the final mapping tool on the UK EITI website, with the terms of reference.

<https://www.gov.uk/government/groups/uk-extractive-industries-transparency-initiative-multi-stakeholder-group#eiti-systematic-disclosure-feasibility-study--and-mapping-tool>.

The MSG will be taking forward the recommendations of the study in the coming months. The study was conducted by the Business Frameworks Analytical Team in the Department for Business Energy and Industrial Strategy (BEIS).

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Compliance

The reporting templates were made available to companies who wished to self-report at the end of April 2017 and they were circulated electronically to 61 extractive companies at the end of May 2017. This included 41 oil and gas companies and 20 mining and quarrying companies.

This figure was adjusted to 41 oil and gas and 21 mining and quarrying during the reconciliation exercise as seven oil and gas companies that were initially sent reporting templates were subsequently excluded from the 2017 scope because as part of the exercise it emerged that they made/received no material payments/repayments during the calendar year 2017. Seven oil and gas companies were added to the reconciliation scope when it was discovered that their payments exceeded the materiality threshold for the calendar year 2017. One mining and quarrying company realised their payments exceeded the materiality threshold for the calendar year 2017 and was added to the reconciliation.

Though provision of payments data is voluntary, the MSG did all that it could to ensure a comprehensive response. In addition to a number of follow-ups by the independent administrator, the Chair of the MSG wrote to the four companies that had yet to respond, encouraging them to do so. Industry representatives also contributed to this effort.

Ultimately, a total of 39 oil and gas companies and 19 mining and quarrying companies participated in the compiling of the report. This equates to 95% of oil and gas companies and 90% of mining and quarrying companies. The MSG estimates that over 97% of relevant payments and repayments, by value, were captured in the exercise, this figure compares favourably against other implementing countries.

2. Assessment of performance against targets and activities set out in the work-plan*

* This section includes reference to the publication of the 4th UK EITI report in February 2019. Although this falls outside of the time period covered by this report, the majority of the work carried out took place in 2018. Previously, references were made to the 3rd UK EITI report (published in 2018) in the 2017 report and the same principle applied to the previous reports.

Objective

Recognise and support the principles set out in the 2016 EITI Standard.

In fulfilling this objective, the MSG:

- Met six times in 2018.
- Ensured that the sector information was enhanced for the 4th report.
- Agreed an updated reporting package for companies. This was issued by Moore Stephens in May 2018.

Enhance accountability to the UK public on the revenues from the UK's extractives industries.

The fourth report provided a further key vehicle for increasing awareness and therefore accountability.

Increase public understanding of the social and economic impacts of the UK's extractive industries and enrich public debate on the governance and stewardship of the UK's oil, gas and mineral resources.

The MSG has accomplished the following in relation to this objective:

- The 4th report and related background chapters provided a highly informative narrative on the economic and social impacts of the extractives sector in the UK.
- The 4th UK EITI report was published on the UK EITI website on 25th February 2019.

Ensure information is readily accessible and presented to the public in a clear manner.

This objective is largely aimed at ensuring the EITI reports are accessible. Work was undertaken to ensure the UK's 4th report and detailed supporting information was clear and accessible on the GOV.UK website which provides a hosting service for the UK MSG's published information. Payments and sectoral data from the fourth report were published simultaneously in open data format.

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Support moves towards common global reporting standards in oil, gas and mining and promote a level playing field for business in the UK and internationally.

The MSG is keen not only to encourage global standards, but also to reduce burdens on business. UK EITI continues to align where practicable with the Reports on Payments to Governments Regulations 2014, the UK's transposition of Chapter 10 of the EU Accounting Directive. For instance, the £86,000 threshold for payments under the Directive is mirrored for EITI.

The Reports on Payments to Governments Regulations were laid in December 2014 and require all large and listed extractives companies to detail the payments they have made to governments across the world. Companies began to file reports over the course of 2016.

The MSG agreed to bring forward the 2017 process by making the reporting templates available by May 2018, to help synchronise the EITI reporting process with the Reports on Payments to Governments Regulations.

Support the UK government's championing of extractives transparency and open government.

DFID and the FCO regularly update UK Embassies on progress of the UK EITI. Knowledge sharing has been an important way of both promulgating the UK's implementation of EITI but also of learning of, and from, progress in other countries.

The UK Chair attended the EITI Beneficial Ownership Conference Africa and EITI International Board meeting in Dakar in October 2018.

The UK Chair and Secretariat met Mark Robinson, the new Executive Director of the EITI, in December 2018 to discuss working together and plans for 2019.

3. Assessment of performance against EITI requirements*

* This section includes reference to the publication of the 4th UK EITI report in February 2019. Although this falls outside the time period covered by this report the majority of the work carried out took place in 2018. Previously, references were made to the third report (published in 2018) in the 2017 Annual Progress report and the same principle applied to the previous reports.

Requirements:

Effective oversight by the multi-stakeholder group.

The MSG meets every two months and the detailed work on implementation is undertaken by sub-groups in between MSG meetings. The sub-groups include representatives from each constituency. They make recommendations to the MSG for agreement.

The key milestones and decisions made by the MSG in 2018 included:

10 January 2018

The MSG agreed to explore the idea of mainstreaming this year and agreed to set aside a whole meeting to carry out a self-assessment exercise to prepare for the validation process.

14 March 2018

The MSG agreed to set up a subgroup to prepare for the validation process and the UK EITI Secretariat agreed to discuss a mainstreaming scoping study with BEIS analyst colleagues.

30 April 2018

Publication of the 3rd UK EITI report.

22 May 2018

The MSG took part in a pre-validation workshop to consider and discuss seven of

the requirements of the 2016 EITI Standard in preparation for the validation process.

20 July 2018

The MSG agreed the Terms of Reference and proposed project delivery plan for the mainstreaming scoping study.

19-26 September 2018

Visit of the Validation team to the UK.

25 September 2018

The MSG agreed an update of the 2016 report to include a material licence payment of £519k that was inadvertently missed. The updated report was published on the website in early October 2018.

27 November 2018

A new format for the 4th UK EITI report was agreed which will consist of a core Reconciliation report with a “State of Industry” chapter to provide context. The background information will be broken down into five separate standalone chapters covering background on the extractive industries, oil and gas, mining and quarrying, approach and methodology and revenue allocations.

Timely publication of EITI Reports.

The UK’s fourth EITI report was published in February 2019 and can be found at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/780971/uk-eiti-reconciliation-state-of-industry-report.pdf

EITI Reports that include sectoral information about the extractive industries.

The sectoral sub-group was responsible for drafting the sector information chapter for the 4th UK EITI Report. Link to the report is above.

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The production of comprehensive EITI Reports that include full government disclosure of extractive industry revenues and disclosure of all material payments to government by oil, gas and mining companies.

A credible assurance process applying international standards

EITI Reports that are comprehensible, actively promoted, publicly accessible, and contribute to public debate.

The multi-stakeholder group to take steps to act on lessons learned and review the outcomes and impact of EITI implementation

The UK's 4th EITI report was published in February 2019. Compliance rates showed that 95% of oil and gas companies and 90% of mining and quarrying companies participated in the 2017 process. The MSG estimates that over 97% of relevant payments and repayments, by value, were captured in the exercise. This figure compares favourably against other implementing countries.

Reporting template from companies had to be countersigned by a senior individual with the company to confirm that the figures provided were credible.

For the beneficial ownership template options for qualified and full attestation were made available to companies.

The UK's fourth EITI report was formally published in February 2019 on the UK EITI website and widely promoted by industry, civil society and government. This included a reference in Secretary of State for International Trade Dr Liam Fox's speech at International Petroleum Week in February 2019 and a news notice was placed on the Gov.uk website.

The MSG has an ethos of continuous improvement and considers carefully how it can incorporate worthwhile and relevant recommendations it receives from the Independent Administrator, from the International EITI Secretariat and from other stakeholders and interested parties.

4. Overview of the multi-stakeholder group’s responses to the recommendations from reconciliation

No	Title	Brief summary of recommendation	Updated status
Recommendations proposed as a result of the reconciliation exercise for the 2014 year			
1	Reporting template for Government Agencies	The MSG should agree on a reporting template for Government Agencies reporting. This should be designed to facilitate the reconciliation work.	Government Agencies have submitted their 2016 receipts/repayments in Excel format for all extractive companies.
2	Register of licenses for the mining and quarrying sector	The MSG should discuss the possibility of requesting license information from mining companies included in the scope of the EITI Report. This can be done through the reporting template where detailed information can be requested. The information collected from companies could then be annexed to the EITI report and / or a publicly accessible register could be set up.	Not yet implemented
Recommendations proposed as a result of the reconciliation exercise for the 2015 year			
3	Reconciliation scope: Companies incorrectly included in scope	MSG should agree on a new methodology for the next UK EITI report for determining which companies are within scope. This will avoid including non-material taxpayers or non-extractive companies.	<p>We made the following adjustments to the 2016 reconciliation scope:</p> <p>Oil & Gas Companies:</p> <p>a. Scottish Power Plc has been excluded from the reconciliation scope as its RFCT paid was below the materiality threshold;</p> <p>Mining and Quarrying Companies:</p> <p>b. Compass Minerals - Winsford Salt Mine and Hargreaves Surface Mining Ltd have been excluded from the reconciliation scope as all Government Agencies have reported zero payment. These two companies were initially selected under Other Mining and Quarrying Companies/Groups.</p> <p>c. Irish Salt Mining and Exploration (ISME) was added to the reconciliation scope based on its material Corporation Tax paid to HMRC and following an advice from Department for the Economy in Northern Ireland.</p>

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No	Title	Brief summary of recommendation	Updated status
4	Reconciliation scope: Interest paid/repaid	HMRC should coordinates with the Account Office (a separate service at HMRC) before submitting payment data to the IA in order to ensure that interest payments are included within this reporting.	Some reconciliation adjustments made were due to interest paid and repaid but not initially reported by HMRC.
5	Reconciliation issues: Lack of distinction between cash payments and offsets from previous years	HMRC should seek to make amendments to its data recording systems to enable the distinction between cash payments received during the year from offsets (allocation of previous over payments).	Some reconciliation adjustments made were due to offsets reported by HMRC without actual payment made by companies.
6	Reconciliation issues: Lack of distinction between ring fence CT and non-ring fence CT	HMRC should ensure that companies' payments distinguish Ring-Fenced Corporation Tax from non-ring fence payments by using the current references so that the payment can be allocated to the appropriate tax stream.	Some reconciliation adjustments made were due to non-ring fence payments reported by HMRC.
7	Reconciliation issues: Payments incorrectly reported by The Crown Estate (TCE)	TCE should meet the deadline for data submission in order to achieve the reconciliation exercise on time. TCE is also encouraged to follow the UK EITI Guidance to disclose payment streams paid by all in-scope companies.	Besides the fact that TCE has submitted its data two weeks after the agreed deadline, payments made by five oil and gas companies were not initially reported.
Recommendations proposed as a result of the reconciliation exercise for the 2016 year			
8	Reconciliation scope: Comprehensive data from TCE.	During the reconciliation exercise it was identified that discrepancies arose because TCE does not have access to Crown Estate Scotland (CES) payments collected for Scottish leases.	CES payments are now collected at source.
9	Reconciliation issues: Out of scope payment/repayment streams.	Some discrepancies with regards RFCT/SC and CT. These arose because HMRC and some companies incorrectly reported payments related to Research and Development Expenditure payments which fall outside the scope of the reconciliation.	Update the guidance notes and templates to ensure that companies do not report Research and Development expenditure payments in their returns.

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No	Title	Brief summary of recommendation	Updated status
10	Reconciliation scope: Advance PRT not reported	Advance PRT is considered in the reconciliation scope and should be reported as part of the net PRT payments/repayments. Discrepancies with regards to PRT were identified as HMRC omitted some of the APRT amounts received.	The templates have been updated to include guidance confirming that APRT payments are in-scope and should be reported.
11	Implementation of automated online disclosure:	The MSG is encouraged to consider systematic disclosure of extractive revenues and payments by Government Agencies and companies. However, for confidentiality reasons HMRC does not publish this information. The MSG are encouraged to explore opportunities to disclose data via online disclosure or by publishing additional, more recent, non-financial EITI data than covered by the accounting period.	The MSG commissioned a feasibility scoping study into mainstreaming that was completed and approved in January 2019. A subgroup will be convened to take forward the recommendations of the study.
12	Late and non-submission of templates:	51 of 60 companies submitted their reporting template on or before the deadline. Frequent follow-up calls and emails were required for the remaining companies. Non-submission by three mining and quarrying companies meant that the IA were unable to confirm the totality of Government Agency receipts.	MSG should consider awareness-raising campaign for UK EITI within the sector.

5. Strengths or weaknesses identified in the EITI process

The UK's fourth EITI report was published in February 2019. The MSG will undertake a lessons-learned exercise in the Summer. The MSG will also evaluate the recommendations made by Moore Stephens in conjunction with the publication of the report.

Reconciliation issues

During the reconciliation exercise, we identified some discrepancies that arose for a variety of reasons, viz:

- payments related to coastal rights were not initially included in the Crown Estate Scotland (CES) reporting as the coastal division was not included in the internal circulation made by CES.
- duplicated payment reported by the CES;
- some refunds of Oil and Gas Authority (OGA) levy were not initially reported by some companies and OGA.
- some companies incorrectly reported repayments related to Research and Development Expenditure Credit, which fall outside the reconciliation scope.

These discrepancies were identified and reconciled.

In order to avoid such issues in further reconciliation exercises, we recommend that the MSG considers updating the guidance notes for 2018. It is also recommended to carry out a webinar for extractive companies that are participating in UK EITI process for the first time to avoid any misunderstandings and improve the quality of the templates submitted. This should make the reconciliation process more efficient.

Another reason for the reconciliation discrepancies was due to the changes within the groups of companies. For example, some groups have acquired or merged with other companies during the reconciliation period. In these instances, HMRC did not report data on new companies joining the group while the OGA has reported them as separate entities.

We therefore strongly recommend that Government Agencies keep an up-to-date database of companies comprising each group of companies.

Disclosure of disaggregated data

According to EITI Requirement 4.7 (Level of disaggregation), EITI data should be presented inter alia by revenue stream.

However, we note that payments to The Crown Estate (TCE) and the CES, were not disaggregated by revenue stream (i.e.: fees, royalties, etc).

In order to fully comply with this EITI requirement, we recommend that the MSG considers updating the guidance notes and adding more details in the reporting templates for 2018 as appropriate. Additionally, Government Agencies should provide complete details of their data by revenue stream.

6. Costs of implementation

BEIS EITI Secretariat consisted of 2 full time members of staff who work on EITI and the Chair.

The totalled figure from the civil society members that reported activity came to 95 days.

Oil and gas representatives estimated 111 days in total with mining/quarrying representatives estimating 36 days.

Government representatives work an estimated 132 days a year on EITI matters.

BEIS contracted Moore Stephens to undertake the reconciliation on behalf the MSG.

7. Details of membership of the MSG during the period

There were 6 meetings of the MSG in 2018. For details of minutes and attendance please see:

<https://www.gov.uk/government/groups/uk-extractive-industries-transparency-initiative-multi-stakeholder-group>