Getting it right for people and the planet

The case for sustainability disclosures from oil, gas and mining companies in the EU's new Corporate Sustainability Reporting Directive

In April, the European Commission (EC) put forward a proposal for a new Corporate Sustainability Reporting Directive (CSRD). Sector-specific standards will be developed, and the European Parliament has stressed the importance of identifying high-risk sectors. In the context of the global climate crisis and the European Green Deal, **it is essential for the CSRD to address major risks arising from the extractive sector and harness the sector's potential to contribute to the Green Deal.**

THE CHALLENGE

The **extractive industries** – oil, gas and mining – drive global economic growth and are an important source of government revenues in many countries. But they are also associated with **huge negative impacts** including greenhouse gas emissions, land and water pollution, biodiversity loss, threats to human health and livelihoods, corruption, conflict and human rights abuses.

Extractive industries have unique characteristics that **must be monitored.** They are a leading source of climate change, but are also **integral to the success of the shift to a clean energy system**, which promises to transform them. Fossil fuel production will rapidly shrink, while demand will skyrocket for strategic minerals needed for renewable energy technologies. Economic impacts will be felt in producing countries, where fossil fuel revenue streams, jobs and business linkages will be severed. In some instances, the minerals boom may make up for these losses, but pressure to develop mineral resources quickly brings additional environmental and social risks.

Risk management requires information. Although a number of extractive companies are subject to EU legislation, **sustainability information disclosed by oil, gas and mining companies remains inadequate and insufficient.** Only 23.5% of the largest energy and resource extraction companies in the EU have published science-based climate targets aligned with the Paris Agreement and only 27% have set out clearly how they address their salient human rights risks. The EU has already made progress with obligations for oil, gas and mining companies to disclose payments to governments in the Accounting and Transparency Directives, but these can be strengthened. Importantly, basic rules detailing how project risks and benefits are distributed between stakeholders are often hidden away in secret contracts agreed by companies and governments.

THE SOLUTION

Specific **sustainability disclosures for extractive companies** will be key to the success of the European Green Deal. **New kinds of information** about the extractive industries are needed to help policy makers, investors, civil society, and those directly affected by oil, gas and mining address climate change, plan for and ensure an equitable energy transition, and develop clean and resilient supply chains for all important critical minerals.

In this context, **standardised, consistent and comprehensive project-level information on extractive industry company operations, contracts, risks and payments to governments**, will help increase awareness and understanding among policy makers, investors, civil society, and those affected by oil, gas and mining of the wider costs, benefits and risks of extraction, improving public accountability, policy responses and capital allocation.

RECOMMENDATIONS

To ensure that the new CSRD is fit for purpose, it should:

- **Mandate the development of sector-specific sustainability disclosure standards for oil, gas and mining companies** that encompass specific rules on disclosure of reserves, production projections, greenhouse gas emissions, transition pathways - including offsets and negative emission technologies - as well as environmental, social, governance and human rights impacts.

- **Require oil, gas and mining companies to make their sustainability disclosures at project level .** The Accounting and Transparency Directives already require payments to governments disclosures by extractive companies to be made at project level. This approach should be replicated in the CSRD for all extractive industries sustainability disclosures wherever applicable. Investors, policy makers and citizens need project-level information to fully understand the impact of climate and financial risk on the economic viability of individual fossil fuel projects and the resilience and risks regarding supplies of minerals required for renewable energy.

- **Require oil, gas and mining companies to publish contracts and other documents upon which resource extraction projects are based.** Although leading intergovernmental, international organizations and major extractive companies have endorsed extractive industry contract disclosure,[1] contracts often remain secret. Availability of contractual terms and associated documents such as impact assessments, will be key to understanding how risk and reward will be shared between companies, communities and governments as climate and energy transition disrupts the extractives industries.

- **Improve existing disclosure obligations for payments to governments by oil, gas and mining companies in line with the findings of the EC's Fitness Check of the EU framework for public corporate reporting.** The EC's Fitness Check of the EU framework for public corporate reporting concluded that the reporting requirements for extractive industries in the Accounting and Transparency Directives have been "*effective in increasing the transparency of payments made by companies to governments for the exploitation of natural resources*". However, the review highlights a number of weaknesses in reporting standards, including regarding the identification of governments, project definition and joint ventures. To address this, the CSRD should ensure that:
  - o companies are required to avoid over-aggregation of projects and to report their share of payments arising from joint ventures on a proportionate share basis;
  - o companies active in physical trading report payments to governments made for the purchase of oil, gas and minerals;
  - o reporting on payments made in kind state both the value and the volume of such payments, include supporting notes to explain how the value has been determined, and avoid aggregating cash payments and payments in kind, or payments in kind for differently valued commodities, such as oil and gas in a single figure.

Publish What You Pay (PWYP) is a worldwide movement of over 1000 members campaigning for open and accountable extractive industries and a people-centered transition to a low-carbon economy.

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[1] See IMF (2019), *Fiscal Transparency Initiative: Integration of Natural Resource Management Issues*, p.7; and EITI (2019), EITI Standard, requirement 2.4 and Guidance Note; Chatham House (2020), Transparency in Transition, p.9,; Pitman (2018), *Contract Transparency Practice and Policy Tracker*; Munilla and Brophy, *Contract Disclosure Survey 2018*, p.48; ICMM (2009), *Position Statement: Transparency of Mineral Revenues*; B Team (2018), *Responsible Tax Principles*, p.7; IFC (2012), *Policy on Environmental and Social Sustainability*, pp.11-12; MIGA (2013), *Policy on Environmental and Social Sustainability*, p.10; EBRD (2013), *Energy Sector Strategy*, p.60; UN (2015), *Principles for responsible contracts*, p.32; International Bar Association (2011), *Model Mining Development Agreement*, p.130; OECD (2017), *On Combating Corruption and Fostering Integrity*, p.15; ICMM (2021), https://www.icmm.com/en-gb/social-performance/minings-contribution/national-economies/contract-transparency

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Supporting Information:

Corporate Sustainability Reporting Directive: Analysis and recommendations on the EU Commission's proposal to reform the EU Non-Financial Reporting Directive, Alliance for Corporate Transparency (2021)