

**UNCTAD GLOBAL COMMODITIES FORUM
13-14 April 2015**

Transparency

By

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Trafigura

The views expressed are those of the author and do not necessarily reflect
the views of UNCTAD.

TRANSPARENCY: THE ISSUE

Corporate transparency as a topic of growing international focus



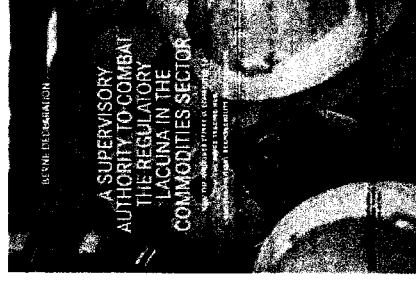
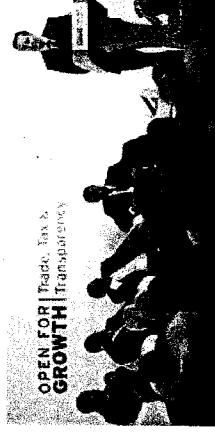
• Trading industry under increasing pressure from advocates and policy makers to adopt more transparent business practices.

• Focus shifting agenda from extractives sector to traders. Advocates for shift include:

- Regulators with international reach (e.g. US, EU, Canada)
- Home country governments (e.g. Switzerland)
- Host 'producer' country governments (e.g. Iraq, Nigeria)
- Governmental frameworks and institutions (e.g. G7, EITI)
- Non-Governmental Organisations (e.g. Bern Declaration)

• In the context of trading, focus has centred on the disclosure of monies, including taxes and royalties, paid by companies to governments in relation to the extraction and sale of a country's natural resources.

Objective: To enable the citizens of commodity-producing countries to determine whether their government secured a fair deal for the production and commercialisation of domestic natural resources.



THE GLOBAL PERSPECTIVE

Increasing regulatory focus



- **US: Dodd-Frank Act, Section 1504:**

The Act covers SEC issuers engaged in “commercial development” defined to include “exploration, extraction, processing, export, and other significant actions relating to oil, natural gas, or minerals, or the acquisition of a license for any such activity”

- **EU: Accounting and Transparency Directives**

Rules apply to “undertakings active in the extractive industries”, which includes undertakings “with any activity involving the exploration, prospecting, discovery, development, and extraction of minerals, oil, natural gas deposits or other materials, within the economic activities”

- **Canada: Extractive Sector Transparency Measures Act (ESTMA)**

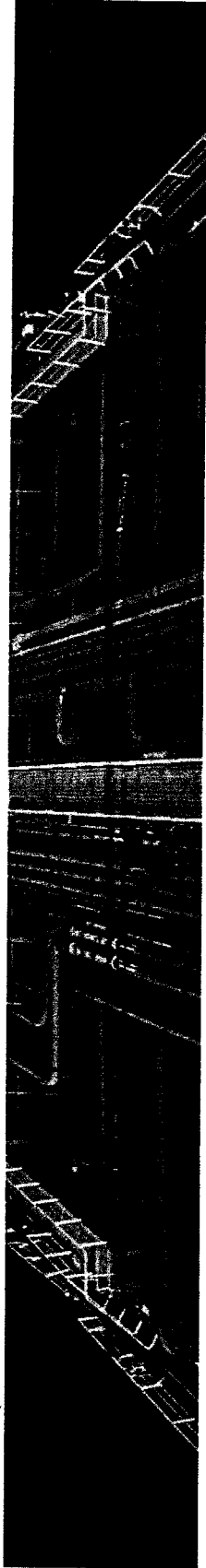
Closely tracks both Dodd-Frank Section 1504. Requires oil, gas and mining companies to publicly disclose payments they make to governments around the world. Scheduled to be enacted in early 2015.

- **Switzerland: Report of the interdepartmental platform on commodities to the Federal Council**

Recommendation 7: “Switzerland should express its support... to reporting requirements on financial flows on a project-specific basis and on sales by national oil companies to commodity trading companies”

HOST PRODUCER COUNTRY GOVERNMENTS

Increasing disclosure



Disclosure of government receipts from resource sales to trading companies, and disclosure of trading companies' payments to governments.

- Iraq: already reconciling government receipts from sales to trading companies
- Nigeria: already unilaterally discloses cargo-by-cargo sales data
- Congo Brazzaville, Chad and Indonesia: discussions ongoing towards provision of disaggregated data

Company Name	Far East USD	USA USD	Europe USD	Total Buyers USD
1. API	143,668,319	2,550,762,750	344,703,333	2,839,134,402
2. BP OH				
3. CEFSA				
4. Chevron				
5. CHINA INTERNATIONAL UNITED (UNIPCO)				
6. CHINA NATIIONAL (CHINA OIL)				
7. China Offshore Oil				
8. CONGOCO PHILLIPS COMPANY				
9. ENI IRIDING				
10. ERG RAFFINERIE				

Figure 6 – NEITI cargo-by-cargo data

Nigeria Extractive Industries Transparency Initiative Physical and Process Report: 2009 – 2011 Oil & Gas Audit Appendix B: Process for Pricing of Federation Equity Crude Oil

Subject: PPMC LIFTINGS AND PRICES

SR	CUSTOMER	PL DATE	CRUDE TYPE	NON CITY	CITY	DESTINATION	UNIT PRICE	CRUDE VALUE	LC NUMBER	PRICING OPTION	AP
1	CALSON	09/01/2009	YCHO	100,000	100,100	SYDNEY	37,678	3,767,828.66	09097294PH	ADVANCED	49.75
2	CALSON	09/01/2009	BL	100,000	100,100	ASTRO OFFSHORE	38,513	3,851,300.00	775010004014	ADVANCED	33.75
3	CALSON	09/01/2009	BL	100,000	100,000	TARAMA	38,513	3,851,300.00	0109015809	ADVANCED	33.75
4	CALSON	09/01/2009	PIPOCA	100,000	100,000	ARE'S OFFSHORE	38,513	3,851,300.00	0000000000	ADVANCED	33.75
5	CALSON	09/01/2009	BL	100,000	100,000	FROM CENTARY	40,912	4,091,200.00	0000000000	ADVANCED	34.00
6	CALSON	11/01/2009	BL	100,000	100,000	FRONT COMMANDER	44,794	4,479,400.00	0000000000	ADVANCED	34.00
7	CALSON	11/01/2009	BL	100,000	100,000	FRONT COMMANDER	44,794	4,479,400.00	0000000000	ADVANCED	34.00
8	CALSON	10/01/2009	BL	100,000	100,000	FRONT COMMANDER	44,794	4,479,400.00	0000000000	ADVANCED	34.00
9	CALSON	10/01/2009	BL	100,000	100,000	FRONT COMMANDER	44,794	4,479,400.00	0000000000	ADVANCED	34.00
10	CALSON	09/01/2009	YCHO	100,000	100,000	ASTRO OFFSHORE	40,912	4,091,200.00	0000000000	ADVANCED	34.00
11	CALSON	09/01/2009	BL	100,000	100,000	ASTRO OFFSHORE	40,912	4,091,200.00	0000000000	ADVANCED	34.00
12	CALSON	10/01/2009	BL	100,000	100,000	ASTRO OFFSHORE	40,912	4,091,200.00	0000000000	ADVANCED	34.00
TOTAL				1,000,000	1,000,100			40,912	40,912,000.00		

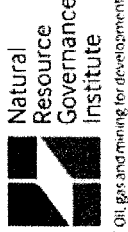
Distribution of oil export sales by SOMO in 2010

NGO DEMANDS

Increasingly vocal and targeted at sector

Objective: To see a regulation passed "that requires Swiss companies producing or trading in natural resources to disclose all payments they make to governments and state-owned companies, whether associated with exploration, production or trading activities..."

Key actors



global witness

Gold-plated demands

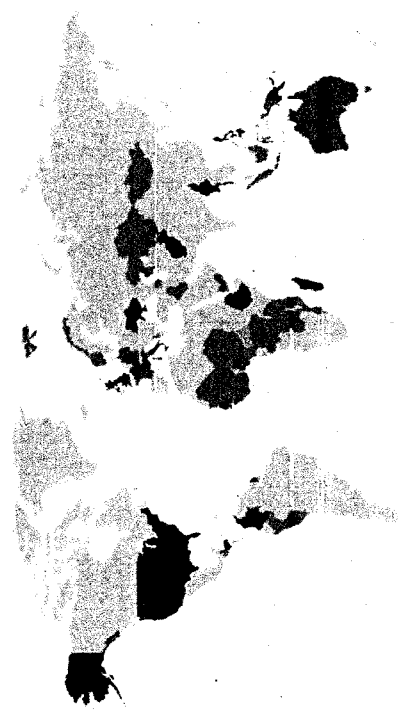
"Reporting by traders should address all sales to foreign and domestic buyers, as well as transfers to other SOEs, like refineries, and include:

- The name, beneficial owner and country of incorporation of the buying company
- The volume, grade, and date of any sale, broken down by cargo where appropriate
- The price, and how it was determined
- The revenue received for each cargo, and the destination of that revenue (e.g., used by NOC to purchase fuel, transferred to national budget, transferred to a local government)
- A full explanation of the process for choosing the buyer (e.g., the allocation of a term contract, an open tender)
- The full text of the related contract (e.g., term contract, agreement to swap crude for refined products)."



Trusted, supported, pragmatic

- Partnership comprising 80+ Governments, NGOs and companies
- A global 'Standard' to promote transparency and accountability in the management of natural resources
- Implementation of EITI is voluntary for countries, but compulsory for extractive companies once a country decides to implement
- Governments of EITI countries disclose how much they receive from extractive companies operating in the country and companies disclose how much they pay.
- In each implementing country, a multi-stakeholder group of governments, companies and civil society oversees the EITI process
- EITI increasingly looking to trading as a major gap hitherto not addressed.



AS OF 3 FEBRUARY 2015

48
COUNTRIES IMPLEMENT THE EITI

US \$1.5 TR
WORTH OF GOVERNMENT REVENUES FROM OIL, GAS AND MINERALS DISCLOSED

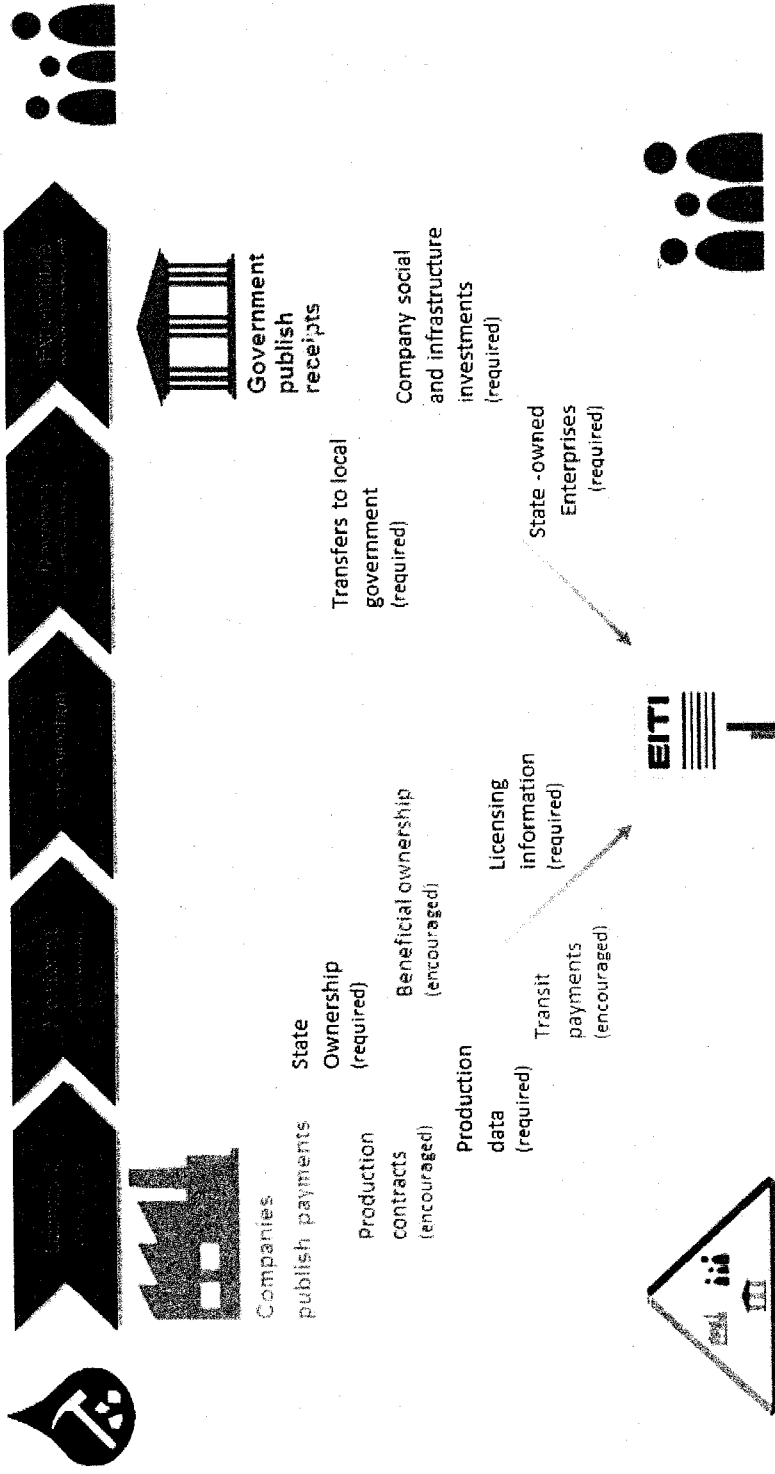
32
ARE COMPLIANT WITH THE EITI REQUIREMENTS

346
PEOPLE ALL OVER THE WORLD WORK IN EITI SECRETARIATS, IMPLEMENTING THE EITI ON A DAILY BASIS

235
YEARS COVERED IN EITI REPORTS

1005
PEOPLE TOGETHER FORM 48 EITI NATIONAL COALITIONS AND THE INTERNATIONAL EITI BOARD

How the standard works



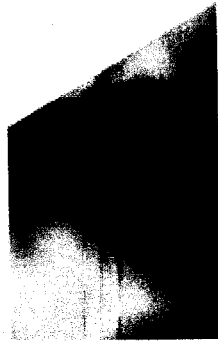
A national multi-stakeholder group (government, companies and civil society) decides how their EITI process should work.

Government revenues and company payments are disclosed together with contextual information and independently assessed in an EITI Report.

The findings are communicated to create public awareness and debate about how the country should better manage their resources.

TRAFIGURA

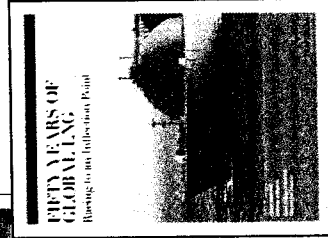
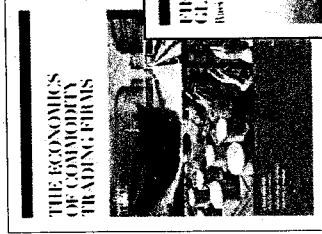
Journey towards greater transparency and engagement



REPORTING

In December 2013, Trafigura became the first privately owned commodities trading company to publicly release an Annual Report.

The Report, released each December, describes strategy and performance in detail across trading divisions and subsidiaries.



WHITE PAPERS

Improving understanding of the commodity trading industry and of the environment in which we operate.

EITI: A MILESTONE

November 2014: Trafigura became a supporting company of the Extractive Industries Transparency Initiative (EITI) Trafigura also published a policy on payments to Governments, drawn up in consultation with the EITI International Secretariat

The policy commits the company to disclosing Trafigura's payments for oil to governments in EITI compliant and candidate countries beginning in 2015

TRAFIGURA'S GUIDING PRINCIPLES

An approach rooted in international good practice and pragmatism



- We have a role (and in a small but increasing number of locations, an obligation) to disclose how much we pay to Governments and their NOCs
- Demands for transparency will only grow – either be part of the agenda or have it shaped for us
- A voluntary framework with pragmatic / expert input is the most appropriate route to explore
- Achievement of greater transparency must be set in the context of respect for contracts and laws
- The EITI's multi-stakeholder approach is the most effective way to develop transparency standards
- This is not about producing data for data's sake. Relevant information should be accessible, understandable and useful to citizens of resource-producing countries
- Our disclosure model will evolve over time in response to informed discussions within multi-stakeholder forums, such as the EITI and EITI multi-stakeholder groups in EITI implementing countries.

THE IMPACT

Moving to the 'right side' of a major issue... with a seat at the table in shaping the debate



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Extensive and vocal praise from Heads of FDFA and SECO



Extractive
Industries
Transparency
Initiative

Jonas Moberg, EITI Secretariat, 11 November, 2014

"Trafigura's commitment to support the EITI is clearly a big step forward. It will set a chain of events, which if managed adequately could lead to significant changes in the industry"



Peter Eigen, Africa Progress Panel member Press Release

"I am now keen to see how this move brings reputational and competitive benefit to Trafigura and how long before other Swiss-based commodity traders follow"



Berne Declaration
Déclaration de Berne
Erklärung von Bern

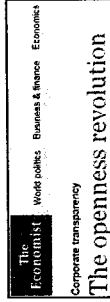
Urs Rybi, Berne Declaration

"One of the companies with quite a mixed track record when it comes to transparency and accountability is moving forward"



Financial Times, 18 November, 2014

"After decades of operating in relative secrecy, commodity traders are being forced to become more open"



The Economist, 13 December, 2014

"Commodity traders, usually a secretive bunch, are opening up to this way of thinking... Its [Trafigura's] reasons for doing so: change is coming anyway, and early movers will be better placed to help shape the standards. There is a financial motivation, too: banks have reduced funding for opaque trading firms after being hit with fines for sanctions violations."

Bloomberg News, 18 November, 2014

"Trafigura's move is a rare breaking of ranks within the commodity-trading industry, where players tend to behave in lockstep regarding regulatory issues"

Metal Bulletin, 18 November, 2014

"Trafigura has joined the Extractive Industries Transparency Initiative (EITI), becoming the first commodity trading company to do so"

PROCESS

Our approach

Commitment to engage with EITI in designing a smart disclosure standard for traders

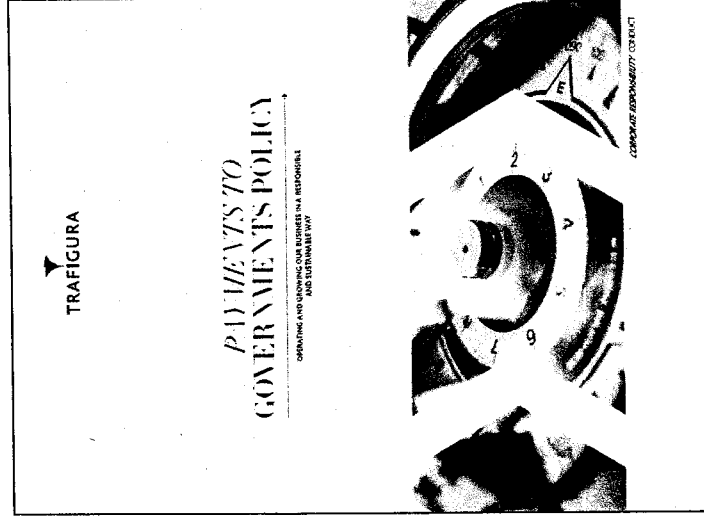
- **GOAL:** To influence the content of the guidance the EITI will issue to national level Multi-Stakeholder Groups

Trafigura has committed to being an EITI supporting company

- **GOAL:** This does not require additional reporting or disclosure of payments beyond what is required already for all companies operating in countries implementing the EITI Standard.

Policy commitment (from the end of FY2015) to release data that incorporates...

- Payments to Governments in the oil sector in EITI compliant and candidate countries
- Historical data only (two-year time lag, so in 2015 we will be releasing 2013 data)
- Disclosures to include corporate taxes and, where relevant, license payments
- Audited data (payments and volumes) to be aggregated and above a 'materiality' threshold established by national EITI Multi-Stakeholder Groups
- Data, with necessary narrative / explanation, to feature in Trafigura's 2015 Annual Report or Sustainability Report



SUPPORTING ENGAGEMENT

Developing our approach



EITI

- Close working relationship with EITI Secretariat in order to shape trading standard
- Active participation at EITI Multi-Stakeholder Group level (locations to be determined)
- Active engagement at EITI Board meetings in Kinshasa (April) and Switzerland (October)

Home Government

- Direct and regular engagement with Swiss State Secretariat for Economic Affairs (SECO) and Federal Department for Foreign Affairs (FDFA)
- Transparency to be a supporting theme for driving engagement in Brussels and Washington

Commercial counter-parties/NOCs

- Engagement with producer NOCs (EITI countries) by trading division (assisted by Corporate Affairs) to ensure absolute clarity on policy and approach
- Engagement with producer NOCs (Non-EITI) to explain policy / reassure / offer link to EITI (assisted by Corporate Affairs)

Trading sector

- Swiss Trading and Shipping Association (STSA) meeting, 30 January – presentation to Gunvor, Mercuria, Vitol, Cargill outlining policy development with Swiss Government (SECO)

Media / general stakeholders

- To position Trafigura as a champion of corporate transparency in the trading sector



QUESTIONS?

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