Publish What You Pay
NORWAY

BRIEFING

MARCH 2015

- Because of downstream numbers in Statoil's upstream country-by-country report the report is not transparent

- Reporting only the purchase of goods and services, and not all costs, creates the illusion that profits from the extraction activities (upstream) are higher than they actually were.

- Statoil's report is so misleading that Statoil should republish with correct numbers for upstream activities

Downstream pollution of upstream numbers

in Statoils first country by country report

Downstream pollution of upstream numbers

The Norwegian regulation is clear: It is the production activities (upstream) that should be reported on for each country. Publish What You Pay Norway's analysis show that Statoil in its reporting has allowed numbers from downstream operations to be mixed with, and pollute, the numbers from upstream operations.

If Statoil also want to report on its downstream business, that is fine. But upstream operations must still be reported separately, and in accordance with the regulation.

The Norwegian country-by-country regulation has the same definition as the EU directive of what constitutes upstream activities: "…undertaking active in the extractive industry' means an undertaking with any activity involving the exploration, prospection, discovery, development, and extraction of minerals, oil, natural gas deposits or other materials". This is what is called upstream activities in extractive industries. Downstream activities are refining, trading and marketing / selling final production. Downstream activities are not part of the definition of the current country-by-country reporting under the EU directive, nor under the Norwegian regulation.

The way Statoil has reported is harmful for the work for more transparent reporting of extractive industries worldwide. That is because one does not get clear correlation between the taxes paid in upstream activities and the context in which taxes are paid (upstream activities). Therefore Statoil should publish a new report that is in line with the regulations, and report upstream activities country-by-country. If downstream activities are reported (separately), then revenues and cost associated with downstream should be reported in the country where income is actually earned or costs added.

Norwegian politicians and bureaucrats should take some of the blame for Statoil not getting it complete in the first country-by-country reporting in the world.

When regulations only require companies to report purchases of goods and services, the full cost of upstream is not shown. This means that it seems as if profits in individual countries is higher than it actually is, which in turn have the effect that taxes reported seem relatively lower than they actually are. That means that the company can attract criticism for paying to little tax relative to the apparent profits. Norwegian authorities therefore expose Statoil and other companies for unnecessary and unfair criticism when they have made a regulation containing such weaknesses. Publish What You Pay Norway has worked intensely since long before the regulation came out that Norwegian authorities must rectify weaknesses in the reporting to ensure that the reporting is as accurate as possible. We have come far, but regulation is missing three key elements to function as intended. Politicians have a responsibility to make a good law, and that it is the relevant figures reported: Only upstream activities or upstream activities that are separated out, and with all upstream costs included.

Tax in context is the employees, the investments, the production, the revenues, the costs and the taxes for extractive activities (that is upstream) in every country around the world – nothing more, nothing less.

Statoil has on page 5 in its country-by-country report shown Statoil's value chain and the scope of the reporting, which is exploration and production (upstream). How the reporting have been polluted by numbers from transportation, refining and processing, and marketing and trading we do not understand. The figure shows that Statoil understands the scope of the report

Civil Society and others have waited many years for the first country-by-country reporting in the world. We expect that Statoil will set the gold standard for how to do this. Statoil should do this, and Statoil can do this. But then Statoil need to publish a new country-by-country report with the correct numbers.

Publish What You Pay Norway has in the table below tried to distinguish upstream information from the total numbers in the country-by-country report using information from the company's annual report (!). This is what Publish What You Norway found (exchange rate 2014 USD / NOK = 6.304116):

ABC for CBC reporting	Revenues (mill NOK) A	Production volume (mill BOE) B	Revenue per BOE (USD) (A / B) / 6,304116 = C
Upstream Norway	182200	432,0	$ 66,90 per boe
Upstream international	85.200	271,3	$ 49,82 per boe
Downstream	339.450		
Total	606.850	703,3	$ 136,87 per boe
Brent oil price 2014 as per Statoil			$ 98,90 per boe
Brent oil price 2014 as per external sources (EIA and Statista)			$ 99,02 per boe

What we can read on the basis of this table is that Statoil would have created very good results for the resource rich countries if they were able to reach upstream revenues of $ 136.87 per boe (oil equivalent).

But that is not the case, and this is due to two factors:

(1) Statoil sells a lot of gas in Norway, the US and elsewhere, and thus the expectation is that the realized price per boe should be significantly lower than the Brent oil price. Publish What You Pay Norway's analysis above shows that the realized price upstream is $ 66.90 in Norway and an average of $ 49.82 internationally. (But it is impossible to check that country-by-country before Statoil has published a correct country-by-country report)

(2) Downstream figures have been allowed to contaminate the upstream country-by-country reporting.

It is positive that Statoil has made a comprehensive report and also added an independent, but limited assurance report. But even if the assurance report is limited it should have captured the above problems. The issue, and the fact that PWYP Norway has used financial statements to correct the error at the overall level, shows that this is financial figures and belong in notes to the financial statements. It should have been covered by the quality control of the external audit of the financial statements.

HELP US CONTINUE OUR WORK:

Do you think our work is important?
Do you want to see financial transparency and accountability in the extractive industries?

You can support PWYP NORWAY by sending a sms

Send **SMS** to **09316** with text
PWYPNORWAY followed by (donation amount)
e.g. pwypnorway 500
(donations in NOK, international users must use +47 417 16 016)

YOUR SUPPORT MAKES OUR WORK POSSIBLE

@PWYPNorway facebook.com/PWYPNorway YouTube PublishWhatYouPay Norway

PWYP Norway is the Norwegian chapter in a network of 800 organisations from more than 70 countries worldwide. We work for financial transparency in the extractive industry to promote sustainable societies.

ISBN 978-82-93212-48-5

Publish What You Pay
NORWAY