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Sustainability Reporting in the Upstream Petroleum Industry in Canada

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ABOUT ISEEE

The Institute for Sustainable Energy, Environment and Economy (ISEEE) is a not-for-profit institute at the University of Calgary. It is an initiative of the President of the U of C, formed in 2003 and guided by a Leadership Board consisting of:

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PREFACE

The energy sector has been a dominant factor in Alberta's development and growth over the last half-century. The large capital investments and operating expenditures associated with finding and producing oil and gas have directly provided a major stimulus to the economy. But the indirect and induced impacts have been equally important. The development of many other industries supplying inputs to the energy sector, the generation of substantial export and government revenues, and the stimulus for large inflows of people have resulted in large 'multiplier' effects. In combination, these have also played a major role in shaping Alberta's 'character' which is generally distinguished by its highly educated, adjustable and entrepreneurial labour force, low unemployment and high labour force participation rates, strong work ethic and sense of self reliance, and its optimistic outlook.

In recent years the energy sector has become even more dominant and has increasingly made Alberta a key driver of the national economy. In a world with a rapidly growing demand for energy, having one of the largest concentrations of energy resources in the world might seem to translate into an assured, prosperous future. There is clearly huge potential associated with unconventional oil and gas, coal, remaining conventional resources and with alternative and renewable energy. However, translating this potential into reality will be daunting. Increasing constraints related to resource access, environmental impacts, infrastructure requirements, and availability of highly qualified people need to be addressed. Other challenges include the massive long-term investments in developing and implementing new technologies and making the right changes in the policy and regulatory framework. Indeed, the fact that relatively few nations have managed to convert resource wealth into high standards of societal welfare is a useful reminder of the magnitude of the challenges.

Alberta is in many respects at a crossroads. On the one hand complacency will almost certainly mean a dimming of the province's long-term prosperity. Declines in the conventional oil and gas sector will significantly dampen growth and prosperity. There are no other sectors of the province's economic base that could realistically expand sufficiently to offset significant declines in the dominant energy sector. On the other hand, visionary, strategic investments today can unlock non-conventional and other energy resources critical to securing a strong and prosperous long-term, sustainable future for the province.

It is in this context that ISEEE has undertaken a series of papers focused on Alberta's energy futures. The intent is to take a longer term look at the challenges, opportunities and choices and what they mean for Alberta's future.

Sustainability Reporting in the Upstream Petroleum Industry in Canada

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Sustainability Reporting in the Upstream Petroleum¹ Industry in Canada

Executive Summary

OBJECTIVES

There are four different reporting guidelines that could be used by Canadian upstream petroleum companies in the preparation of sustainability reports. These four guidelines are:

- Enhanced Business Reporting Framework (EBR);
- Global Reporting Initiative Guidelines (GRI);
- Sustainability Reporting Guidelines by International Petroleum Industry Environmental Conservation Association (IPIECA) and American Petroleum Institute (API); and
- Stewardship Benchmarking Guide produced by the Canadian Association of Petroleum Producers (CAPP).

The current research compares these guidelines and attempts to determine what obstacles they present, if any, for both preparers and users of sustainability reports. We present recommendations for streamlining the reporting process and making it easier to access sustainability information for use in decision making.

METHODOLOGY

To accomplish the objectives, our research team analyzed four sustainability reporting guidelines to determine their degree of consistency. Subsequently, we interviewed preparer companies, user groups, and others associated with sustainability reporting, referred to as subject matter experts (SME) in this report. The interviews helped to highlight inefficiencies that occur in the process of preparing, distributing, accessing, and using economic, environmental, and social information contained in what are generally called sustainability reports. Interviews were also useful for identifying obstacles to following various types and levels of reporting guidelines. In all, we interviewed 25 SMEs. In the preparer SME category, eight companies had either prepared or were planning to prepare a sustainability report. We interviewed three additional companies that had no intention of preparing stand-alone reports but submitted information under the CAPP Stewardship Program and provided select sustainability information on their websites. Finally, we interviewed one industry association representative who prepared the industry's Stewardship Report and a consultant who helps prepare sustainability reports. In the user category, we interviewed 11 SMEs, consisting of investment analysts (both mainstream and specializing in socially responsible investing), representatives of regulatory agencies, and organizations that

¹ Oil and gas and petroleum industry are used interchangeably in this study.

promote corporate responsibility. In addition, we interviewed two auditors who provide assurance statements on sustainability reports.

CONTEXT FOR THIS STUDY

There is growing awareness globally that corporate reporting should be extended beyond financial performance to include disclosure on an organization's environmental and social performance. Investors, employees, customers, community members, advocacy groups, and others throughout society make decisions based on more than just financial information. Consequently, stakeholder groups are demanding increased information on a company's sustainability performance. Although there is a strong movement within the global industry for companies to become more transparent and accountable, the existence of a plethora of standards (e.g., ethical mutual funds, the Dow Jones Sustainability Index, pension funds, institutional investors, the Global Reporting Initiative, and the CAPP Stewardship Program) makes it difficult and time-consuming to report according to each organization's diverse criteria.

FINDINGS

The findings are presented in two parts: a comparative analysis of the four reporting guidelines and a content analysis of the interviews.

Guideline Analysis

The analysis showed that the various guidelines differ on several aspects. The GRI Guidelines are a broad-based, internationally recognized standard that provide guidance for any type of organization wishing to prepare sustainability reports. In contrast, the Stewardship Program is a commitment program (environment and safety) that applies only to the members of the upstream petroleum trade association in Canada. While the GRI is built on a foundation of openness and transparency for reporting at the organization level, Stewardship Program data are published only in aggregate and not available on an individual company level. The Stewardship Program is an attempt to improve the performance of the entire Canadian upstream petroleum industry, and reporting is one means to achieve that improvement. The IPIECA Guidelines provide industry-specific guidance to the international oil and gas sector, similar to the GRI guidelines except that they were not developed through a multi-stakeholder process. EBR, while including environmental and social information, is primarily designed as a high-level framework to provide the investment community with financial and non-financial information necessary to make decisions.

Interview Analysis

Too many guidelines confuse preparer companies and user groups. Preparers incur high preparation costs to supply performance information to various stakeholder groups, and users encounter high information searching costs when comparing and analyzing several companies' sustainability performance. Both users and preparers would benefit from some vehicle whereby sustainability reports are housed and are accessible similar to financial reports, making it easy to

search for and compare performance data for several companies. Preparer companies would like harmony among the guidelines. Because of its international recognition and credibility, companies prefer that the GRI Guidelines become the one guideline accepted by various organizations requesting information on sustainability performance. Preparer companies suggested that a variety of stakeholders work with GRI to develop sector specific criteria. Coming to a consensus on acceptable reporting criteria could lead to companies spending fewer resources on the reporting process and more on improving their actual sustainability performance.

CONCLUSIONS AND RECOMMENDATIONS

Based on our research, we present the following conclusions and recommendations for implementation in subsequent phases:

- Under the present situation, there are too many guidelines, making it confusing and inefficient for preparer companies and users.
- The GRI Guidelines provide the best umbrella framework and the most credible general system for reporting, but a petroleum industry sector supplement is important for more specific performance benchmarking and sector-specific comparability.
- An industry sector supplement should be founded on the same principles on which the GRI is based. A supplement should be developed in collaboration with a wide variety of stakeholders, not just by industry members.
- A supplement would provide standardized indicators that apply to petroleum companies worldwide, allowing for international comparability and lowering the cost of third-party verification of the data.
- Specific regional indicators should be added to a supplement to address the specific context in which Canadian corporations operate.
- A system needs to be developed for easier reporting of, and access to, sustainability information.

To act upon the conclusions, we suggest that two complementary thrusts should be explored.

First, sustainability reports should be accessible over the Internet in an interactive format. To accomplish this, the GRI reporting guidelines should be enabled with XBRL (eXtensible Business Reporting Language). These reports could then be made available in a system similar to SEDAR or EDGAR, which are used for financial data access. Such a system would allow companies to provide only one report for all stakeholders (e.g., institutional investors, employees, communities). In addition, stakeholders who search for information would be able to do so more efficiently and effectively, thus lessening both preparation and searching costs. Companies generally make reports available through their websites, which is commendable. However, an XBRL system would make sustainability reports more readily accessible to analysts and other stakeholders who want to conduct performance comparisons of a number of companies.

The second thrust to be explored is to encourage investment organizations (e.g., Dow Jones Sustainability Index) that analyze corporate performance to use GRI-based, XBRL-enabled report warehouses to do their initial analysis. After completing this initial analysis, these organizations could then determine if additional unique questions still must be asked of companies. Coming to a consensus as to acceptable reporting standards would allow companies to be more efficient in meeting each investment organization's proprietary needs.

The savings that companies would experience from report preparation could be used instead to engage auditors and stakeholder groups who would provide additional assurance on both indicator accuracy and performance quality. This could lead to improved sustainability performance and data integrity.

GOING FORWARD

The results of this study provide the background, underpinnings, and direction for subsequent phases which are dependent on receiving further funding. The additional phases include development or refinement of a more streamlined and efficient standard method for reporting sustainability performance in the upstream petroleum industry in Canada. This would be done by obtaining multi-stakeholder input; testing the method with report preparers and users; and making the framework available for public use.

Sustainability Reporting in the Upstream Petroleum Industry in Canada

CONTEXT FOR THIS STUDY

Conversations regarding the relationship between society and organizations often involve the phrases “social contract” or “access to markets.” These phrases derive from legitimacy theory, which suggests that society grants organizations certain rights to manage a significant portion of its scarce resources through an implicit charter (Dowling & Pfeffer, 1975). With these corporate rights come corporate responsibilities, one of which is to produce not only adequate economic output but also environmentally and socially acceptable output. To determine if this implicit contract should be renewed, society needs objective evidence upon which to base its decision. Historically, the annual report, which focused primarily on the corporation’s financial performance, was adequate. However, information demands on the corporation of today are broad and varied. If corporate communication and disclosure is comprehensive, consistent, and credible, it not only lend support for renewal of the social contract and survival of the corporation, but it can also ward off government legislation or other negatively perceived activities that may act as road blocks in the organization’s attempt to accomplish its objectives.

Certain industries are more exposed to legitimacy challenges than others due to the very nature and scale of their operations. Such industries include, but are not limited to, the chemical, forestry, and petroleum industries (Deegan & Gordon, 1996; Hackston & Milne, 1996). Because these industries deplete the world’s natural resources, extractive industries must be especially attentive to broad measures of performance and reporting of performance.

The communication turning point for the petroleum industry was the Exxon Valdez oil spill in 1989. This event shocked society and the petroleum industry worldwide and created greater awareness within the sector of the importance of communication. Regulators, government officials at many levels, and environmental organizations were moved to action as they began to respond to public dissatisfaction. Concerned citizens cut up their Exxon credit cards, refusing to purchase gasoline from the company (Jones et al., 1994). Exxon was not the only petroleum corporation affected. The Valdez spill sparked increased regulation, constraints on exploration in environmentally sensitive areas, and increased costs of production due to higher standards of safety, increased insurance costs, and frequency of lawsuits. Even the cost of capital rose for some companies as investors factored an environmental risk premium into the equation and in extreme cases refused to place funds in an industry perceived as unable to operate, according to the demands of society, without constant supervision (Jones, et al., 1994). In response, many corporations within the industry attempted to show that they were responsible and legitimate entities through additional disclosure about environmental performance in their annual reports (Patten, 1992).

Environmental reporting for a company usually starts with statements or short sections of qualitative discussion in annual reports and evolves to stand-alone documents (both hard copy and electronic). Initially, stand-alone documents are usually weak on hard, quantifiable, comparable

data because companies' information systems are not yet complete and robust. In the early stages, most companies simply report what information they have rather than identifying indicators that are most salient to them and their stakeholders. A few proactive corporations have linked their environmental and social reporting systems to their financial information systems as they evolve toward more comprehensive sustainability reporting. Through the reporting process, leading corporations often welcome stakeholder input on the company's direction. They regard reporting as an important "learning" process in improving environmental performance.

Unfortunately, some corporations wait until they are at, or near, a crisis stage before communicating their sustainability performance. In such a circumstance, companies face a steep learning curve as they hasten to learn how to fulfill external stakeholder demands for transparency and accountability. If a company is at a crisis stage, it is likely that it will fail to realize fully the internal benefits from preparing such communications, not the least of which is to shape a corporate culture which will mitigate the risk of crises in the first place. Using sustainability reports proactively as a critical source of information for internal decision-making and for shaping internal expectations in addition to periodically and reactively accommodating demands of external shareholders builds trust and credibility and adds value.

Over the years, several events in Canada have raised concerns about the disconnect between the industry's operations and society's demands. In 1982, a sour gas blowout occurred in Alberta, generating tremendous negative publicity throughout North America. Then, during the 1990s, environmental activists bombed and vandalized numerous oilfield facilities in Alberta. In 1998 after a continued dispute about oil leakage on his land, an Alberta rancher shot and killed the vice president of KB Resources. And, in the early part of this decade, Talisman's investment in the Greater Nile Oil Project in Sudan sparked concern among major human rights, religious, and government groups that the corporation's profits were supporting the Sudanese government in the civil war. In that case, Talisman faced a threat to de-list its stock from the New York Stock Exchange.

Because there was insufficient communication coming from the petroleum industry before or during these events, the image of the entire industry declined over the years. In a survey prepared by Earncliffe Research and Communications in 2000, respondents indicated that honesty, accountability, and responsibility to the environment/community were the most desired industry characteristics, and respondents gave the petroleum industry poor ratings on these qualities.

This current study is of major importance given this public skepticism, the general movement toward enhanced business reporting for industries, and the reliance by many users on sustainability reporting for decision making (e.g. regulators, securities exchanges, institutional investors, financial analysts, advocacy groups, and current and prospective employees). The financial community recognizes that a narrow focus on financial performance disclosure leaves decision makers with high information searching costs as potential users look elsewhere for the information they need to gauge corporations' sustainability performance (McLean, 2005). All major Canadian and international accounting bodies are now associated in some way with sustainability reporting. However, even with the development of a number of sustainability reporting standards, the major concern of "greenwashing" associated with these reports still remains. The notion that corporations use sustainability reporting merely to mask underlying negative environmental performance has led to skepticism among academics, practitioners, and other stakeholders

regarding the value of these reports. This research aims to evaluate this skepticism to determine how sustainability reporting can be improved for both the preparer and the user to enhance the value and credibility of the information.

OBJECTIVES OF THIS RESEARCH

There are four different guidelines that could affect a Canadian petroleum company attempting to prepare a sustainability report. These four guidelines are:

- Enhanced Business Reporting Framework (EBR);
- Global Reporting Initiative Guidelines (GRI);
- Sustainability Reporting Guidelines by International Petroleum Industry Environmental Conservation Association (IPIECA) and American Petroleum Institute (API); and
- Stewardship Benchmarking Guide produced by the Canadian Association of Petroleum Producers (CAPP).

The current research compares these guidelines and attempts to determine what obstacles they present, if any, for both preparers and users of sustainability reports.

The results of this study will provide the background, underpinnings, and framework for subsequent research phases which are dependent on receiving further funding. The additional phases include development or refinement of a more streamlined and efficient standard method for sustainability reporting in the upstream petroleum industry in Canada. This would be done by obtaining multi-stakeholder input; testing the method with current report preparers and users; and making the framework available for public use.

This rest of this paper is organized as follows. We start with a brief history of sustainability reporting and a discussion of recent developments in the international and Canadian petroleum industry to provide context for the current study. Then, our two-pronged methodology is discussed: analysis of the guidelines, and analysis of interviews from subject matter experts (SMEs). Finally, after a discussion of the findings from these analyses, we make recommendations to improve preparation of, and access to, sustainability reporting information.

HISTORY OF SUSTAINABILITY REPORTING

Approximately 15 years ago, companies began producing some of the first stand-alone environmental reports. At that time, many other companies believed that this type of reporting was simply a fad that would disappear after a few years. Skeptics felt that allocating resources toward such an initiative was not appropriate for several reasons, among them: 1) the benefits could not be determined, 2) the public was not interested, 3) good indicators could not be developed to measure such abstract concepts, 4) readers would not understand the results, and 5) time was better spent focusing solely on financial performance.

Despite the skepticism, a few innovative companies ventured out to engage stakeholders and improve transparency. As first movers, these companies had to determine what an

environmental report² should look like, what information it should contain, what data they had within their management systems that could be quantified, how to make the report credible, and what information would be of interest to stakeholders.

After a few years of experimentation, a group of these first movers decided standardizing environmental reporting would be beneficial. In 1993, ten North American companies established the Public Environmental Reporting Initiative (PERI) with the objective of providing a few guidelines and suggestions for improving reporting. In 1996, the United Nations Environment Programme (UNEP) published a five-stage reporting model in its document titled *Engaging Stakeholders* that suggested key elements of reporting for small and medium-sized enterprises. In 1997, the UNEP joined forces with Ceres (Coalition for Environmentally Responsible Economies) to form the Global Reporting Initiative (GRI) which undertook to develop Sustainability Reporting Guidelines. GRI became independent in 2002 but is an official collaborating centre of the UNEP.

Unlike the guidelines that came before, the GRI Guidelines are the product of a multi-stakeholder process. Representatives from business, accountancy, investment, environmental, human rights, research, and labour organisations from around the world actively participate in the development and testing of the guidelines. The guidelines undergo continual improvement. As a result, GRI released the third version of its reporting guidelines in October 2006.

The sole mission of the GRI is to “develop and disseminate globally applicable Sustainability Reporting Guidelines.” The GRI would like their guidelines to eventually become as essential as generally accepted accounting principles. The GRI Guidelines are voluntarily used by organizations for reporting on the economic, environmental, and social dimensions of their activities, products, and services. Today, almost 1,000 organizations worldwide have registered in the GRI database. The database contains names of organisations that “have released a report (current or previous) referring to the use of the Guidelines.” However, that does not mean that all organizations in the database have necessarily conformed to the entire Guidelines. Although the GRI has worked with various industries to develop sector supplements, a sector supplement for the petroleum industry has not yet been produced.

Regarding the link between sustainability reporting and financial reporting, recent studies show that an organization's net profits alone are insufficient for predicting an organization's stock price, suggesting that a change has occurred in how businesses are valued. Such a change in operations calls for a similar change in the manner in which organizations disclose their performance. Lev (2001) found that the present system of corporate disclosure results in underpricing securities and misallocating corporate resources because stakeholders do not have the appropriate information to make informed decisions. Consistent with Lev's work, Low (2000) found that up to 50 percent of a traditional company's value and 90 percent of an e-commerce company's value can be determined by assessing such factors as innovation, quality, customer relations, management capabilities, alliances, technology, brand value, employee relations, and environmental and community issues; in other words, non-financial factors. Later research studies confirm these results. Unfortunately, the current financial accounting framework, (commonly

² The first stand-alone reports contained only environmental and safety information and were referred to as environmental reports. Subsequently, stand-alone reports now contain information on environmental, as well as economic and social dimensions, and are referred to as sustainability reports.

known as Generally Accepted Accounting Principles) tends to perpetuate the information deficiency (Lev, 2001).

Therefore, in 2005, the American Institute of Certified Public Accountants' (AICPA) established the Enhanced Business Reporting Consortium. The Consortium's mission is to engage select stakeholders (investors, creditors, regulators and management and others) to develop a framework "to improve the quality and transparency of information used for decision making." The problem definition for the Consortium is based on research that shows that "75 percent of market value is based on value drivers not fully communicated through the existing GAAP model." An early draft of the Enhanced Business Reporting Framework (EBR360^o) suggests that organizations should provide crucial information that falls under four broad areas: business landscape; strategy; competencies and resources; and performance. *Environmental and social* is one of the eight categories that fall under the strategy area, thus giving these two elements of triple-bottom line reporting more prominence in relation to the economic element.

Despite efforts to make sustainability reporting credible through a rigorous set of guidelines, the main concern for users of these reports is still their credibility. A report by the Certified General Accountants (CGA) Association of Canada indicated that "green washing" is still a concern, even for shareholders, arguably the most important stakeholder audience for sustainability reporting. The companies surveyed in the 2004 CGA report strongly supported the GRI initiative but few (less than 25%) were aware of the guidelines. Furthermore, smaller companies are less likely to provide information about environmental performance than larger companies because the relative cost to do so is greater, making industry efforts to standardize comprehensive reporting of performance more difficult.

DEVELOPMENTS IN THE INTERNATIONAL PETROLEUM INDUSTRY

The challenge to the petroleum industry is to provide energy at a reasonable cost, while managing its operations safely and lessening its impact on the environment through reduced emissions, fewer discharges, and less ecological disturbance (Arscott, 2003). In summary, this challenge, involves generating positive social and environmental outcomes in addition to numerous economic benefits.

To meet this challenge, the International Association of Oil and Gas Producers (OGP), an association that represents the upstream oil and gas industry before international agencies, undertook to promulgate best operating practices "particularly in the areas of health, safety, the environment and social responsibility." Since 1994, OGP has had a task force to raise awareness and gather performance data for world-wide reporting. In 1998, OGP provided guidelines for industry reporting and developed its first set of environmental performance indicators (Garland, 2002).

Under a separate initiative, but endorsed by the OGP, the International Petroleum Industry Environmental Conservation Association (IPIECA) and the American Petroleum Institute (API), prepared *Oil and Gas Industry Guidance on Voluntary Sustainability Reporting* as of April, 2005. The American Petroleum Institute (API), the trade association for the oil and gas industry in the United States representing all segments of the industry, partnered with IPIECA to produce the guidelines. Established in 1974, IPIECA represents both the upstream and downstream oil and gas

industry and is a principal channel of communication with the United Nations on industry safety, environmental, and social issues.

DEVELOPMENTS IN CANADA'S PETROLEUM INDUSTRY

Canada's oil and gas industry is ranked as the ninth largest producer of crude oil and the third largest producer of natural gas in the world. Approximately 525,000 people work for the oil and gas exploration, production, and retail sectors, which represents 3.5 percent of Canada's labor force. Within Canada, Alberta is the largest producer of oil and natural gas, and these products account for 60 percent of the province's exports. This vast economic impact, combined with the nature of producing and processing non-renewable natural resources creates the potential for enormous environmental and social impacts.

Much of the extraction is close to the Canadian Rocky Mountains, located in Alberta and British Columbia and home to many national parks, World Heritage sites, biosphere reserves, and ecologically sensitive areas. Given increased public sensitivity in Alberta and British Columbia, the petroleum industry often finds itself held accountable to its stakeholders for exploring and producing in an environmentally- and socially-acceptable manner.

In Canada, as elsewhere, the petroleum industry is capital-intensive and depends on governments and private landowners for access to increasingly scarce exploration and production opportunities. The opportunities are often located in politically sensitive areas, for example where operations exist on, or adjacent to, land owned by Aboriginal People. These challenges are particularly critical in Alberta, with growing pressure and potential for conflict between stakeholders as a result of increasing industry activities creating greater cumulative impacts (more than 20,000 new wells each year), and greater community awareness of those impacts (e.g., ground water contamination, water scarcity, land disturbance, greenhouse gas emissions, potential health risks from sour gas and flaring). Access to resources is predicated on the trust of a wide and diverse group of stakeholders.

Leadership in Canada's Petroleum Industry

No doubt, public accountability is what spurred some of the companies in Canada's petroleum industry to be first movers in reporting environmental performance. Shell Canada published its first report in 1991 before the first set of guidelines was developed. It has continued to produce reports, even during difficult economic times. Shell Canada's reports span the evolution from environmental to sustainability reporting. As well, Shell Canada played an important role in helping its parent company, Royal Dutch Shell, to become a respected sustainability reporting company. Both the parent company and Shell Canada have been recognized with numerous awards for their sustainability reporting.

Suncor was one of the first companies in Canada and in the world to publish its sustainability report "in accordance with" the 2002 GRI Reporting Guidelines. The Association of Chartered Certified Accountants recognized Suncor for *Best Sustainability Report in North America* in 2003. Suncor has benefited from its transparency because it has helped the company to meet

the international screening criteria for a number of funds that invest in sustainable companies, including various ethical investment funds.

Nexen is also recognized as a leader in sustainability reporting and is an avid supporter of the Global Compact. Nexen is undertaking Responsible Care^{®3} certification for its petroleum facilities. Historically, Responsible Care[®] is a certification for chemical facilities, but Nexen has decided to implement it in its Western Canadian oil and gas operations.

All three of the above companies have been repeatedly selected for the Dow Jones Sustainability Index. Talisman, subsequent to considerable media coverage regarding its operations in Sudan, has also been recognized frequently for producing an outstanding corporate responsibility report.

Stewardship Program

Since 2003, all members of the Canadian Association of Petroleum Producers (CAPP) are required to report certain environmental and safety performance indicators to be included in the trade association's Stewardship Report. The Report is the vehicle for disclosing the industry's consolidated progress in fulfilling its commitments for improved environmental and safety performance under the Stewardship Program. Since 2002, CAPP has granted company awards for outstanding performance in the areas of environmental, health and safety, and social performance, as well as an overall President's Award.

METHODOLOGY

Although there are several role models in Canada's petroleum industry, few companies currently produce stand-alone sustainability reports in the industry. Most Canadian petroleum production (almost 98 percent) is included in CAPP's Stewardship Report, but it is a consolidated report that does not show individual company performance. Stakeholders also need to know company-specific performance. Therefore, this research is intended to provide information useful for establishing a strategy for the next stage of development of petroleum companies' reporting practices.

The first step consisted of a review of four major guidelines that address facets of sustainability reporting. These four guidelines are:

³ Responsible Care is a Canadian creation, an initiative of the Canadian Chemical Producers Association (CCPA). It is an ethic for the safe and environmentally sound management of chemicals throughout their life cycle. The ethic has spread to other parts of the globe as a consequence of the leadership of CCPA's members. It is now evident in 52 countries. Under this program, the CEO or most senior executive of every member of CCPA must commit to implement the guiding principles and codes of practice of Responsible Care within three years of joining the association and to be publicly verified as having done so. All companies are re-verified every three years and the re-verification reports are placed online as they become available. The expectations of members and partners in Responsible Care go beyond the required implementation of codes of practice. Expectations include CEO networking via leadership groups, public input through a national advisory panel, and mutual assistance through sharing successful practices.
<http://www.ccpa.ca/ResponsibleCare/>

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- Stewardship Benchmarking Guide produced by the Canadian Association of Petroleum Producers (CAPP).

We also used the Canadian Institute of Chartered Accountants (CICA) Management Discussion & Analysis Guidelines for reference. However, in its present form this document is not really a guideline for sustainability reporting.

At the broadest level, the EBR Framework was motivated by a deficiency gap between the information that stakeholders need to make decisions and the information provided under the current financial accounting framework (financial statements produced using GAAP guidance, their notes, and required disclosures in the Management Discussion & Analysis). The EBR framework is structured primarily for the financial community. The extent that all publicly-traded companies will be able to adhere to this framework in their annual reports is yet undetermined. The expanded reporting framework includes environmental and sustainability information. At this time (2007), only preliminary information is available about the EBR framework.

The GRI's focus is on providing guidance for **any organization world-wide** to produce a stand-alone sustainability report, encompassing environmental, social, and economic performance. The IPIECA Guidelines narrow the focus by attempting to provide **world-wide oil and gas industry sector guidelines** which are similar to the GRI guidelines. Finally, the Stewardship Benchmarking Guide narrows the focus further to provide specific reporting guidance for the portion of the **Canadian upstream oil and gas industry** under the trade association's (CAPP) Stewardship Program.

Given that there are four different guidelines that could potentially affect a Canadian petroleum company that is attempting to prepare a sustainability report, this research determines if any obstacles might arise either for preparer companies or users of reports.

In the second step, primary data was gathered through interviewing subject matter experts (SMEs) in the preparer, user,⁴ and auditor categories. We gathered data on various aspects of sustainability reporting and its usefulness. In all, we interviewed 25 SMEs. In the preparer SME category, eight companies had either prepared or were in the planning process of preparing reports. We interviewed three additional companies that had no intention of preparing stand-alone reports but submitted information under CAPP Stewardship and provided select sustainability information on their websites. Finally, we interviewed one industry association representative who prepared the industry's Stewardship Report and a consultant who helps prepare sustainability

⁴ Even though preparer companies could be called users of sustainability reports, as they read other companies reports, the term "user" in this paper is in reference to a person or organization who will "use" sustainability information in their decision-making process and will not be involved, to any great extent, in the preparation of a report published by an upstream oil and gas company.

reports. In the user category, we interviewed 11 SMEs, consisting of investment analysts (both mainstream and specializing in socially responsible investing), and representatives of regulatory agencies, and organizations that promote corporate responsibility. Finally, we interviewed two auditors who provided assurance statements on sustainability reports. The intention was to determine how the reports can best meet user needs.

Interviewees headquartered in Calgary, Alberta were interviewed in person. Prior to the interview appointment, the interviewee was sent four documents: 1) a consent form required by the Conjoint Ethics Committee at the University of Calgary, explaining the purpose of the study and asking for permission to interview; 2) a table showing key similarities and differences among the EBR Framework, the GRI Guidelines, the IPIECA Guidelines, and the CAPP Guidelines, 3) a comparison of the indicators suggested under GRI, IPIECA, and CAPP, and 4) a list of interview questions for the interviewee to think about prior to the interview (see Appendix 1). If permission was granted by the interviewee, the interview was recorded. Each interviewee was asked to indicate the degree of confidentiality he/she would like to maintain: individual, organization, or both. The questions were used as a guideline for the interview but if the interviewee had pertinent information to add, discussion was not limited to the questions provided. Interviewers were allowed to delve further into any question as they saw fit. The interviews were immediately transcribed for content analysis of answers.

The third step involved preparation of this report, which identifies key issues and opportunities for improvement and provides a basis for subsequent research phases.

FINDINGS

Analysis of Reporting Guidelines

Tables 1-5 provide detailed analyses of the four guidelines. For a detailed comparison of the specific indicators suggested under the GRI, IPIECA, and CAPP Guidelines, the Stewardship Benchmarking Guide provides this analysis, available at www.capp.ca.

We provide a brief narrative comparison of several dimensions of the guidelines in this section. Please refer to the tables for more detailed comparisons on the following topics: Background, Philosophical Foundation, Content (including Overview, Categories of Disclosure Indicators, and Description of Indicators for Economic, Environment, Health and Safety, Human Rights and Ethics), Implementation Process, Assurance Statements, and Feedback. Most of the discussion that follows compares the three sustainability reporting guidelines (GRI, IPIECA, and CAPP), as the EBR Guidelines are not complete.

Background. The first GRI Guidelines were published in 2000; subsequently, the guidelines have been revised in 2002 and 2006. The IPIECA Guidelines were published in 2005, and CAPP's first report prepared under the Stewardship Program Reporting Guidelines was published in 2000. GRI is an internationally recognized standard, created in partnership with the United Nations Environment Programme, through a consensus of dialogue with a wide variety of stakeholders. Feedback is received on a continual basis. Although IPIECA's Guidelines are a first attempt to provide guidance to the petroleum industry worldwide (much like a GRI petroleum sector

supplement), they were created through a Joint Corporate Reporting Task Force of large petroleum companies, with representation from the petroleum industry's trade association in the United States (the American Petroleum Institute). CAPP's Stewardship Program Reporting Guidelines were developed with industry members and limited stakeholder interviews. The strength of both IPIECA's and CAPP's Guidelines are that they are petroleum industry specific and technically strong; however, they were created with limited independent stakeholder input and are primarily a product of industry membership.

Philosophical Foundation. The GRI Guidelines are built on sound principles of inclusiveness, relevance and materiality, sustainability context, and completeness. The reported information is expected to be balanced, comparable, accurate, timely, clear, and assurable. These principles are similar to those on which financial reporting is based. A definition, explanation, and a number of self-tests are provided for help in understanding and implementing each principle. The GRI Guidelines present indicators in all three dimensions of sustainability: economic, environmental and social. IPIECA uses the GRI principles as a foundation for its reporting; however, the document is primarily rules based. All three dimensions of sustainability are addressed, but the environmental and economic dimensions are more thoroughly developed than the social. In contrast, CAPP Stewardship Guidelines do not provide guidelines for stand-alone sustainability reporting, only for reporting company performance to CAPP. CAPP then aggregates the data for the industry's annual report on the Stewardship Program, which focuses primarily on the environmental and safety dimensions with some economic information. The social dimension is addressed in an appendix. More technical detail is provided in the Stewardship Guidelines than the other two guidelines to ensure consistency across all firms so that the data can be reliably aggregated at the industry level. In contrast, the other two guidelines focus on organizational level reporting.

Content. GRI suggests reporting both qualitative and quantitative data. It also suggests benchmarking against earlier performance (i.e., reporting three years of performance data), against objectives, and against other organizations. IPIECA and CAPP are silent on this aspect. GRI recommends a balanced view (reporting both positive and negative performance), whereas IPIECA and CAPP are silent on this aspect. GRI suggests including all entities over which the company has control or significant influence in the indicators. IPIECA only recommends stating whether the operating or equity method is used in determining reporting boundaries. In contrast, CAPP uses the operating method. GRI suggests a commitment from the top (senior position with operational responsibility to sign the report). IPIECA and CAPP are silent on this aspect. For specific categories and indicators required under each guideline, please refer the Stewardship Benchmarking Guide (available at www.capp.ca), which provides a comparison of the GRI, IPIECA, and CAPP at the end of the Guide.

Implementation Process. GRI provides workshops throughout the world to help preparers understand and use the guidelines. GRI also provides technical protocols and some sector supplements. A petroleum industry supplement has not yet been prepared. We were unable to determine what type of support is provided for implementing the IPIECA Guidelines. CAPP has provided tools and training for the 2005-2006 year. Both GRI and IPIECA are voluntary reporting guidelines, whereas Stewardship Reporting has been required for all CAPP members since 2003.

GRI is in the process of developing digital support for tools that will be XBRL⁵ compatible. CAPP provides digital spreadsheets for its members to use for forwarding performance information to the association.

Assurance Statements and Feedback. GRI recommends the use of independent external assurance. Internal auditing of the reporting process and related data is recommended. Stakeholder engagement and feedback are also strongly suggested. IPIECA only suggests that the company's internal control methodologies be discussed and recommends stakeholder engagement and a discussion of the process. CAPP does not address assurance, but its report does contain a third party assurance statement indicating that the process was consistent with a Benchmarking Validation Methodology; however, individual company data are not necessarily reviewed by a third party.

Summary. The analysis shows that the various guidelines differ on several aspects. The GRI Guidelines are a broad-based, internationally recognized standard that provide guidance for any type of organization wishing to prepare sustainability reports. In contrast, the Stewardship Program is a commitment program (environment and safety) that applies only to the members of the upstream petroleum trade association in Canada. While the GRI is built on a foundation of openness and transparency for reporting at the organization level, Stewardship Program data are published only in aggregate and not available on an individual company level. The Stewardship Program is an attempt to improve the performance of the entire Canadian industry, and reporting is one means to achieve that improvement. The IPIECA Guidelines provide industry-specific guidance to the international oil and gas sector, similar to the GRI guidelines. However, neither the IPIECA nor Stewardship guidelines were created by means of multi-stakeholder representation but rather through industry representatives. EBR, while including environmental and social information, is primarily designed to provide the financial investment community with information necessary to make decisions.

Analysis of Interviews of Subject Matter Experts (SMEs)

Guidelines

Familiarity. All of the SMEs were familiar with at least some of the guidelines. All of the petroleum companies that were preparing or planned to prepare stand-alone company-specific sustainability reports were very familiar with the GRI Guidelines. They used the GRI Guidelines as their primary guidance. All preparer companies provided the required data to CAPP to include in the Stewardship Report, but they did not use either the IPIECA or the CAPP guidelines to significantly determine how to prepare their stand-alone sustainability report.

⁵ XBRL, the Extensible Business Reporting Language, is an XML-based language used to describe business reporting information. XBRL is used for internal reporting and for external quarterly and annual reports and regulatory filings. Consumers of XBRL information include internal management, external regulatory agencies, analysts and investors, and others who process and analyze business information. XBRL enables these consumers to obtain business information in a more timely manner, it facilitates the automated processing and analysis of this data and provides a framework for more detailed reporting than is currently possible using traditional paper-based or electronic reporting methods. See www.xbrl.org

Those companies not preparing stand-alone, company-specific sustainability reports, who reported under the Stewardship Program, used the information submitted to CAPP internally for decision-making and provided select information on websites. They had investigated the possibility of external reporting and were generally familiar with the external reporting process. One company was intimately involved in the governance of the CAPP Stewardship Program.

Some of the preparers and users were part of the multi-stakeholder process of providing feedback to GRI for improving the Guidelines. Most SMEs (both preparers and users) were barely familiar with the EBR framework because it had just been introduced and is currently incomplete.

Roles and Uses of the Guidelines. One preparer company commented on the roles of each of these guidelines: “We use the GRI as our primary scorecard for our CSR (corporate social responsibility) report, although we borrow loosely from IPIECA and CAPP in terms of technical specifications for our KPIs (key performance indicators).” This comment is representative of the other preparer companies’ feelings regarding the particular value that each guideline offers. Preparer companies felt that IPIECA and CAPP provide “pretty rigorous standards for the oil and gas industry.” They provide more expertise on the technical end, and GRI provides a broad, credible, internationally accepted, multi-stakeholder developed framework, useful for all companies, not just the petroleum industry. The preparer companies suggested that the GRI had some very attractive characteristics. “We believe that so far [the GRI] has the highest standard, the most comprehensive that is available.” “We choose that one [the GRI] because it is internationally recognized; a multi-stakeholder forum generated it.”

However, even though most preparers and users felt that the CAPP Stewardship Program was weak in comparison to the GRI Guidelines, there was recognition that the CAPP Stewardship Program has value especially for small and intermediate companies. One multinational company suggested that the CAPP Stewardship Program asks companies to look at their impacts:

I think it forces our industry to be a better societal performer. It is great because smaller organizations struggle with those issues because they do not have the funds. I have 14 people to help improve the environment, health, and safety of our operations. Programs like that [CAPP Stewardship] help smaller organizations get focused on the most important things and that helps the entire industry. It helps us make better choices.

Another company suggested that “it is not the report [CAPP Stewardship] itself but the access to the results, so that we can benchmark ourselves against our peers. This company elaborated on CAPP Stewardship: “We are pretty comfortable in what we report on and that our reporting is fairly complete and accurate [referring to data integrity].” However in terms of coverage, another company suggested that there were lots of gaps: “It [CAPP Stewardship] does a lot of things on the environment but the social side is disastrous.”

The consultant explained: “If you look, for example, at the Stewardship Report, it only reports a few indicators, and it is pretty hard to discern trends.” The characterization that the CAPP guidelines result in “the least common denominator” was also suggested by one of the preparer companies. Consistent with the preparer companies, the consultant suggested that GRI was the best mechanism for elaborating and developing sector guidelines because if you have “something completely industry developed, like the CAPP one, it will not have a lot of credibility.”

However, the advantage of CAPP's benchmarking system is that it provides an opportunity for "companies to set their goals to be the top performer by every measurement, and if they find themselves in the bottom quartile in sulphur emissions or something else, it does give them an incentive to re-examine what they are doing." Because all individual company data are accumulated into industry indicators, the definitions, processes, and calculations must be precisely stated, thus allowing comparison.

However, there are still data challenges. The industry representative indicated that "it has been a big struggle as to how to get benchmarks that apply to oil sands, that apply to conventional oil, and that also apply to offshore. And when you go international, you are talking not just upstream, but downstream, and mid-stream." There has been some discussion of moving CAPP Stewardship toward GRI, but that will be an issue for a newly formed external advisory group to address. CAPP Stewardship allows companies to use the indicators to benchmark performance; however, individual company data are not released to the public. Therefore, external users do not have access to this information.

In summary, there is an important difference between the GRI and CAPP regarding performance versus reporting. The main objective of the CAPP Stewardship Program is to improve performance and reporting is a secondary objective, whereas GRI's main objective is to improve reporting, and hopefully, a secondary objective will be to improve performance. There is a trade-off between broad coverage vs. details when considering GRI vs. CAPP, with IPIECA in the middle.

Benchmarking of Reports/Activities but not Performance. Even with the high standards of the GRI, the preparer companies have difficulty comparing (or do not compare) their performance with other companies who are using the same GRI Guidelines. However, preparer companies did suggest that comparison is somewhat easier when companies use GRI. All companies review annually (or did review before their first report) up to 100 other sustainability reports to learn from best practices and incorporate some of these practices in their own reports. One preparer company commented: [We compare reports] "to share ideas or identify who is pushing the sustainability agenda forward or who has a great table on targets and objectives; comparison is good."

However, this company did not compare the actual performance numbers, but suggested that it might in the future. The preparer companies felt that companies interpret the guidelines in a manner most useful to them since each company has a unique situation. However, one company had identified at least three peer companies that could comprise a benchmark group. This company felt that indicators should be standardized but that it would be a huge challenge due to corporate culture, inertia, and the data format currently in each company's reporting systems. For example, some companies report in imperial units, while others report in metric. Companies simply use the units that their internal information systems use. Other problems arise also.

If you look at energy efficiency, you see parameters which are gigajoules, per barrel of oil produced, barrel of oil equivalent, per cubic meter, per barrel of dry bitumen produced, or per barrel of wet bitumen produced. Already, there are six different measures of energy efficiency.

This company felt that part of the diversity was because companies have had only a few years of experience with sustainability reporting in contrast with financial reporting, where total shareholders' return or cash flow have become acceptable even though each company claims a unique operating or financial situation.

Some preparer companies admitted that as a user, it would be good to have standardized indicators: "If I was a regulator, sure, the guideline is good and I am expecting similar content, just like an annual report." Ironically, even though they recognized the benefit to users, a couple of preparer companies downplayed the use of guidelines for their own reports, as they wanted to report based on their values and beliefs or their major areas of risk, which they felt might not coincide with the guidelines.

Petroleum Sector Supplement. There was general agreement that a petroleum sector supplement, prepared under the GRI would help to solve some of the conflict between broad-based vs. industry specific. One preparer company suggested that because the GRI is applicable to all organizations, parts of the guidelines become irrelevant when applied to a specific sector or industry.

The guidance [GRI] is a nice starting point but quite often the guidance is not relevant to our business. It has 15-20 KPIs that are relevant to the consumer use of products, but we don't have a retail presence. We take multiple guidelines and then look at our internal system and try to come to some common ground. So, in that respect they are helpful.

All preparer companies agreed that a petroleum sector supplement would be beneficial. One company responded: "Absolutely, I have repeatedly pushed for oil and gas sector-specific guidelines whether they are developed under the umbrella of GRI or otherwise." Another company suggested that an industry supplement would help to move the industry ahead on comparability. "Today it doesn't exist, so we don't compare." This company would like to be able to compare health and safety, water use, energy use, greenhouse gas emissions, and whatever else makes sense across sectors. "I think there is an opportunity to learn and compare with people outside of the sector." Regarding a Canadian petroleum industry sector supplement, the companies felt that it was important that the indicators used for reporting, when applicable internationally, should be the same regardless of the region; however, when Canada has regional differences, a reporting guideline should accommodate those difference with perhaps Canada-specific indicators. For example, in Western Canada, aboriginal community development and partnerships should have greater focus; however, carbon dioxide emissions should be measured and reported the same internationally.

If a petroleum sector supplement is developed, then a decision must be made as to who will prepare the supplement. All preparer companies believed that the credibility GRI carries is, in part, due to its multi-stakeholder process, and it is not just preparer companies deciding what should be reported. Therefore, they preferred to see the same process followed for preparing a petroleum sector supplement. One company explained:

When I travel and talk with companies and stakeholders, they generally know what GRI is. It has the recognition factor with their stakeholders. It is seen as credible, which I think is important. Fewer people understand what IPIECA and CAPP are all about. When you

explain it to them, their reaction is “OK, member companies, oil and gas companies make up the participants in these two associations, so it is oil and gas companies setting the rules of how they operate.” In my opinion, how can you be credible if you are regulating yourself by setting the guidelines by which you have to operate?

The investment community agreed that it makes more sense to work with what guidelines currently exist and to enhance them for the petroleum industry because there are too many guidelines already. For example, one interviewee noted that the forestry industry has at least three different performance guidelines.

It is very costly to qualify for them, because currently there are three. So a company figures out which one of the three it is going to use. Then [it turns out] that one is going to be more recognized than another. And perhaps the company chose the less recognized one. It is probably better [more efficient] to have one standard for all.

Other Tools and Criteria. Some other tools and criteria were mentioned by the interviewees that are useful in the environmental reporting or performance improvement process but are not truly reporting guidelines, such as Stratos, Inc.'s bi-annual report benchmarking, Environment Canada's reporting toolkit, the Dow Jones Sustainability Index survey, and ISO 14001. Environment Canada's toolkit provides basic information for a company that is just starting to report. Stratos, Inc. evaluates and ranks sustainability reports on several different dimensions. Stratos, Inc. uses the GRI as the foundation of their evaluation but often goes beyond the Guidelines in their evaluation criteria. The Dow Jones Sustainability Index and other socially responsible investment analysts have their own set of criteria by which they evaluate businesses for selection for their indices or funds. ISO 14031, as part of the ISO series, provides basic information on indicator types but it does not constitute a comprehensive guideline.

The consultant suggested that government databases, such as the National Pollutant Release Inventory (NPRI), are a good idea, but current reporting requirements make them of limited usefulness. Users perceive that a tonne of pollutants is a tonne of pollutants and do not consider that a tonne of slightly acidic water and a tonne of benzene are two entirely different things. However, these databases can be quite useful when comparing the same chemical emissions in Mexico, the United States, and Canada. Also, these databases have the potential to lessen users' information searching costs. The consultant explained:

If the government reporting and databases become a little more transparent, accessible, rigorous, and comparable, [a user] will no longer have to get 50 companies' environmental reports and page through, trying to figure out if they are all reporting SO₂ the same way.

Decision Usefulness

All SMEs suggested that the sustainability reports contained valuable information for decision making. However, the SMEs suggested that the size and amount of information that the report contained could result in information overload for some users. Many felt that the information, although useful in its current format, could be made more useful by changing or adding certain characteristics. In the section that follows, we provide a brief summary of each preparer and user

group's concerns with the current method of conveying sustainability information and some suggestions for improvement.

Preparer Companies. For preparer companies, there are three categories of discussion: how companies use their own reports and those of other companies, customizing reports for audiences, and associated preparation costs.

As mentioned earlier, preparer companies are not only users of their own sustainability reports but also users of their peer companies' reports. They are used for several purposes:

- To understand the values, projects, objectives of their partner companies (joint production projects).
- To determine which indicators, organization, and procedures others use.
- To see who is pushing performance standards to a higher level.
- As a means to share ideas.
- To determine best practices for displaying information or communicating to stakeholders.

However, the main objective for preparing sustainability reports is to communicate with stakeholders. In contrast to having just one report, one of the preparer companies was finding that, even though there is much value in preparing a comprehensive sustainability document "in accordance with" the GRI Guidelines, sustainability reporting must evolve to meet the needs of the communities in which companies operate. As the company must answer to different audiences with different demands, the company's communication strategy must accommodate various stakeholder needs through different formats, frequency, and amount of sustainability disclosure. The representative from this company suggested that communities want a customized report.

Our communities want to hear from us every couple of months, so they don't necessarily want a great big report like that sitting in front of them. They want a snappy foldout, like a newspaper, which has pictures, stories, and relevant things that are happening in their communities. One thing that we know is that after this 2005 report, we definitely need to do things differently.

The consultant supported the necessity to customize reports, and he agreed that the idea of a newsletter form (e.g., a two to four page foldout for each of the operating facilities, reporting emissions, safety record and regulatory violations), would be useful, but noted that a global report is also necessary. One company with which the consultant worked is planning to do three types of reports and to tailor the reports to specific stakeholders. Tailored reports also address the complaint from some of the readership that reports are too long and too detailed, although academics, non-government organizations (NGOs), and government officials still want significant detail. The necessity of reporting disaggregated as well as aggregated data was illustrated with an example provided by the consultant:

If companies just report on the corporate level, and all of the plants operated at 99.92% efficiency, that doesn't tell you a lot. It tells you that that may be better than the rest of the industry, but it might not tell you that for five days last year, a certain plant emitted a bunch

of extra stuff. That's what a stakeholder wants to know. On the other hand, if I am an environmental mutual fund manager or shareholder, that 99.92% might be useful because that tells me that this company is a better place to put my money than another company who is reporting 97.6%.

The industry representative also indicated that they struggled with how to distribute the content of the CAPP Stewardship Report. What are the formats necessary to reach employees and landowners? She elaborated: "The documents are now quite lengthy, and almost like reference documents, which probably works well for an investor that is ranking companies and for EH&S professionals, but what is appropriate for field level employees or contractors and suppliers?"

The resources required for complying with a number of different requirements can be enormous. One preparer company commented: "They are all in the same neighborhood, but I would say they are not necessarily on the same street." This company explained further: "It is not only confusing for the reader, which is the primary audience, but if you have multiple guidelines, how does the reader know which one is credible and which one is not." Another preparer company explained that the company is not only a member of CAPP but also a member of the Mining Association of Canada. Therefore, the company has to adhere to both reporting requirements. This company would "like to see CAPP and other requirements in greater alliance with the GRI." Responding to the obstacle of diverse requirements, another preparer company indicated that each has its own good justification, but "if we prepare documentation to fit all of those guidelines and from various investor analysts, we would probably have twelve people working full time." All preparer companies would like to see the users of sustainability information to come to some consensus on what should be reported and eliminate the duplication and diversity among guidelines and criteria unless there is some solid justification for diversity. All preparer companies believe strongly in the principles of transparency and disclosure, but feel that they could be met more efficiently with a solid set of consistent guidelines that would satisfy all users. This principle is illustrated by a preparer company's comment: "Now don't get me wrong, the principal of reporting is right in my heart; we must do the proper thing, but my problem is trying to recognize the various needs of all of these requirements." Another preparer company commented more specifically on the cost.

So we have lots of things with water....we measure, we monitor, we report and we don't have any way corporately to put all that together. We might put in a \$100,000...it is very complicated to gather information. To put all that together to answer the question so that it is repeatable requires IT systems, training costs... so for the whole company it is tens of thousands or hundreds of thousands of dollars.

In light of these comments, it seems prudent to consider the following strategy to improve report preparation: agree on one acceptable standard, which can be customized to meet the needs of diverse audiences, making it easier and less costly to fulfill companies' objectives of transparency and openness.

Investment Community. Interviews with the investment community included a mainstream professional and one who specializes in socially responsible investing (SRI). There was little difference in how these two perceived the importance of sustainability reports. Both used

sustainability information in their decision making. Both were familiar with some of the reporting standards. One used other sources for assessing companies, such as the Dow Jones Sustainability Index, the Jantzi Social Index, and different news services in Europe because the companies within these indices have already been reviewed. Due to time constraints, neither read sustainability reports in detail, although one indicated that their research team would spend more time on the detail, looking specifically for risk factors. The other indicated that if a large position is taken in a company, then the sustainability report is important for more in-depth scrutiny.

Both felt that the information in sustainability reports is valuable for decision making but found it difficult to compare companies. The mainstream professional elaborated that he used sustainability reports on an exception basis for both negative and positive results. For example, if a company was involved in a newsworthy incident, he would check reports to determine what the company said about the incident. If there were a protest, could the company actually get on the land to work the investment? On the positive side, the mainstream professional also looked for companies that have collaborative community activities and make efforts to have good relationships. This information does impact operations. He indicated:

We find the ones thinking about those issues [sustainability] also manage well in other ways. So I would say that it is an indicator of strength and forward thinking.

Both agreed that searching for the information is often time consuming. The SRI professional suggested that it would be useful to have a more condensed, user-friendly version, as sustainability reports tend to be quite lengthy.

It would be nice to have a "Readers' Digest" version... something that is easier to interpret. A number of them are up to 100 pages or more and are pretty intensive. It would be nice to have them a bit briefer. Then if you wanted more information, you could delve into it further.

Generally the investment community agreed that the reports are useful, but it depends on the size of the company. Sometimes there is poor consistency, which makes comparisons difficult. Both said that having one source that a user could go to for publicly listed companies, similar to financial reports at least at the national level, would save on information searching costs.

For the financial side, you can go to a site called SEDAR, so if there is something like that for sustainability reports, I think that would be handy. It is quite labor intensive to go to each website, go to the menu, and then find it, because sometimes it is in an obscure area.

The investment community preferred a system that could save on information searching costs and would allow for easy comparison of companies. It would also be helpful if the data had been independently reviewed in some manner, to add credibility.

Regulators. Regulators were hesitant to rely heavily on data that were not audited with the same degree of rigor as financial statements. If audited, then government organizations could justify incorporating the data and suggested that other groups might also.

If we are using information that is not credible, not objective, and not independent, We would be criticized for making decisions based on subjective materials. I, certainly as a professional, would be willing, and I think our board would be more willing, to take it more seriously if it was independently verified.

Although regulators do not formally use information from sustainability reports (as they are driven by reporting under formal regulations), informally, regulators do have several uses for the information in these reports. Sustainability reports add another piece of information that is considered when updating rules and regulations, especially when determining if there is a need to change the rules. Members of the environmental branch of the regulatory agency do use the information to gather technical information on land use, water recycling, or other areas. Also, at hearings, panels will evaluate all the information and come up with a decision. One regulator explained:

It is like the sausage factory, considering all those ingredients, mixing it together, and we get the sausage at the end in the form of a decision about development and whether it is in the public interest.

Furthermore, the more and better information that is available to individuals who participate in evaluation and decision making, the better their decisions. In this regard, the regulators explained that one of their objectives was not to transfer liability created by this generation to future generations.

The regulators made several suggestions for improvement. First, sustainability performance data should be audited, similar to financial statements. Second, all reporting should be mandatory; then, the information would be available about all companies. Third, it should be linked to financial performance in some way. Fourth, the data should be easily accessible in a manner so that some secondary level indicators, performance ratios, or other analysis could be done.

Institutions Supporting Social Responsibility. In general, these organizations felt that the reports were useful for decision making but found them difficult to compare due to the flexibility of the current GRI standard. They felt going with one internationally accepted standard with a sector supplement (with additional, not different, indicators) and allowing room for reporting a few Canada-specific issues would be best. Regarding multiple standards, one interviewee indicated that it is not useful to continue to have multiple standards if they all have the same objectives. He recognized that GRI and CAPP could very well have different objectives: GRI for sustainability reporting and CAPP Stewardship for environmental benchmarking. However, it makes sense to reduce the number of different reports prepared if there are not valid reasons for having different objectives.

They discussed the following concerns about their use of the reports: "Long reports fatigue the user and there should be a better method of accessing the information." "Picking the standards that a company wants to apply and the ones that it does not creates confusion." "We want to be able to understand who the leaders are and what some of the key progressive initiatives are that companies take. Then we promote them to other companies, so comparing companies is important." Some had their own internal methods of dealing with the lack of comparability in these

reports, such as sending questionnaires to the companies, telling companies what they should report, doing their own research, and creating their own matrices for locating reporting gaps.

Some wanted mandatory disclosure to make reports more comparable and the same internal assurances that were given on financial data to ensure the credibility of the data. To simplify the reporting process, one organization suggested allowing companies to report online, using one report in the form of a questionnaire, and suggested that the GRI was moving in that direction as well. Some suggestions for improvement included: releasing CAPP data not just by industry but by individual company; including goals and targets; linking environment and social indicators to financial statements; mandatory reporting, especially of all environmental and social risks in the Management Discussion and Analysis; and providing statements to conceptualize impacts, such as “the reduction in our emissions is equivalent to taking 2,000 cars off the road.”

Auditors. The auditors suggested that comparability is an issue, not only among countries, but even among provinces or states within a country. For example, if the government tells a company that it must calculate emissions using a certain formula, and those formulas are different, then can you add them together? One auditor explained:

You run into a lot of things where you have an international company. Things are measured differently in each country. So you just can't add them together. You have to convert everything to one formula and then add together.

The two auditors disagreed on the need for standardized reporting, one indicating that we should move away from it, and the other indicating that it is very important, re-iterating the fact that the reports that are currently prepared in the petroleum industry are “hard to compare because they are reporting different things.” The auditors also disagreed on the need for an industry sector supplement under the GRI. One felt that a sector supplement was necessary while the other felt that it was not needed.

Not surprisingly, and consistent with other SMEs, the auditors felt that some review or audit of the performance data would be useful regarding data integrity. However, they well recognized that the qualitative discussion was also important, and that stakeholders could play a role in reviewing and commenting on whether the company's performance was of a sufficiently high level, if values were appropriate, and if the reporting covered all material sustainability issues. They suggested a dual assurance process whereby auditors check data integrity and stakeholders review the company's performance.

RECOMMENDATIONS FOR THE FUTURE

Based on our research, we present the following conclusions and suggestions:

- Under the present situation, there are too many guidelines, making it confusing and inefficient for preparer companies and users.

- The GRI Guidelines provide the best umbrella framework and the most credible general system for reporting, but a petroleum industry sector supplement is important for more specific performance benchmarking and sector-specific comparability.
- An industry sector supplement should be founded on the same principles on which the GRI is based. A supplement should be developed in collaboration with a wide variety of stakeholders, not just by industry members.
- A supplement would provide standardized indicators that apply to petroleum companies worldwide, allowing for international comparability and lowering the cost of third-party verification of the data.
- Regional indicators should be added to a supplement to address the specific context in which Canadian corporations operate, such as treatment of aboriginals.
- A system needs to be developed for easier reporting of, and access to, sustainability information. Two complementary thrusts should be explored.

To act upon the conclusions, we suggest that two complementary thrusts should be explored.

First, sustainability reports should be accessible over the Internet in an interactive format. To accomplish this, the GRI reporting guidelines should be enabled with XBRL (eXtensible Business Reporting Language). These reports could then be made available in a system similar to SEDAR or EDGAR, which are used for financial data access. Such a system would allow companies to provide only one report for all stakeholders (e.g., institutional investors, employees, communities). In addition, stakeholders who search for information would be able to do so more efficiently and effectively, thus lessening both preparation and searching costs. Companies generally make reports available through their websites, which is commendable. However, an XBRL system would make sustainability reports more readily accessible to analysts and other stakeholders who want to conduct performance comparisons of a number of companies.

The second thrust to be explored is to encourage investment organizations (e.g., Dow Jones Sustainability Index) that analyze corporate performance to use GRI-based, XBRL-enabled report warehouses to do their initial analysis. After completing this initial analysis, these organizations could then determine if additional unique questions still must be asked of companies. Coming to a consensus as to acceptable reporting standards would allow companies to be more efficient in meeting each investment organization's proprietary needs.

The savings that companies would experience from report preparation could be used instead to engage auditors and stakeholder groups who would provide additional assurance on both indicator accuracy and performance quality. This could lead to improved sustainability performance and data integrity.

GOING FORWARD

The results of this study provide the background, underpinnings, and direction for subsequent phases which are dependent on receiving further funding. The additional phases include development or refinement of a more streamlined and efficient standard method for reporting sustainability performance in the upstream petroleum industry in Canada. This would be done by obtaining multi-stakeholder input; testing the method with report preparers and users; and making the framework available for public use.

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APPENDIX 1

Questions for Interviews: Preparer Companies

Please give some thought to these questions before the interview session.

- 1) Have you prepared or are you considering preparing an environmental, corporate responsibility, or sustainability report?
- 2) If the answer to Question 1 is "yes," did you prepare or are you considering preparing such a report? If the answer to Question 2 is "no" why are you not considering preparing such a report?
- 3) Are you familiar with any of the reports that are currently prepared by members of the upstream/downstream oil and gas industry? What is your observation? Are they easy/difficult to read or to compare? Are they useful? What are some good/bad characteristics about them?
- 4) Are you familiar with any of these guidelines (GRI, IPIECA, CAPP, EBR)? If you ever prepare a report, would you consider using any of these guidelines? Which one(s)? Why? Are having so many guidelines a help or an obstacle to start reporting? Why?
- 5) Do you feel that a GRI G3 Sector Supplement be developed for the upstream industry? Why? If so, what organizations/groups should be involved in its development? Is there any need for a made-in-Canada framework specifically designed for the upstream petroleum industry other than the CAPP Stewardship Program?
- 6) In the development of a sustainability reporting framework, what do you think the appropriate role is for the various stakeholders? (government, regulators, NGO's, shareholders, institutional investors, public, companies, industry associations, etc.)
- 7) Have you had any difficulties in reporting under the CAPP Stewardship Guidelines? What do you think of the industry report? Have you heard any stakeholder feedback about the report?
- 8) What do you think of external assurance statements in sustainability reports? Do they add value? eliminate the perception of "greenwashing"?
- 9) A number of organizations provide external assurance statements (accounting firms, environmental organizations, environmental consulting companies, groups of the company's stakeholders). Who do you think should be providing these statements and why?
- 10) How can external assurance statements be made more useful for the user of the report? More standardized? More customized?
- 11) Most external assurance statement indicates that the assurance process only reviews the system through which data are collected rather than checking the data. Is this acceptable?
- 12) What internal assertions are made within your company about your reporting, either internal or to the CAPP Stewardship Program or elsewhere? By BOD? By internal audit? By top management?

Additional Questions:

- 1) What has changed in your organization since you starting reporting? Has reporting changed your performance?
- 2) What is your motivation for reporting?
- 3) What type of data do you think is most useful?

Questions for Interviews: Other Stakeholders

Please give some thought to these questions before the interview session.

- 1) Do you use environmental, corporate responsibility, or sustainability report in making decisions? How? If no, why not?
- 2) If environmental and social information was easier to access and made available in a database similar to financial information, would you be more likely to use this type of information to make decisions? What information would be useful and how should it be made available? What type of data would be most useful, qualitative or quantitative?
- 3) Are you familiar with any of the reports that are currently prepared by members of the upstream/downstream oil and gas industry? What is your observation? Are they easy/difficult to read or to compare? Are they useful? What are some good/bad characteristics about them? What do you think the companies' motives are for preparing them?
- 4) Are you familiar with any of these guidelines (GRI, IPIECA, CAPP, EBR)? If you ever use these reports, would you feel that a report prepared according to these guidelines was more credible? Why? Are having so many guidelines a help or an obstacle to using reports?
- 5) Specifically, what do you think of the CAPP Stewardship Industry Report? Do you feel that a GRI G3 Sector Supplement be developed for the upstream industry? Why? Is there any need for a made-in-Canada framework specifically designed for the upstream petroleum industry other than the CAPP Stewardship Program?
- 6) In the development of a sustainability reporting framework, what stakeholders should be involved and what would be their roles (government, regulators, NGO's, shareholders, institutional investors, public, companies, industry associations, etc.)?
- 7) What do you think of external assurance statements in sustainability reports? Do they add value? Eliminate the perception of "greenwashing"?
- 8) A number of organizations provide external assurance statements (accounting firms, environmental organizations, environmental consulting companies, groups of the company's stakeholders). Who do you think should be providing these statements and why?
- 9) How can external assurance statements be made more useful for the user of the report? More standardized? More customized?
- 10) Most external assurance statements indicate that the assurance process only reviews the system through which data are collected rather than checking the data. Is this acceptable?
- 11) What internal assertions do you think should be made within a company about its reporting, either internal or to the CAPP Stewardship Program or elsewhere? By BOD? By internal audit? By top management?

COMPARISON of SUSTAINABILITY REPORTING GUIDELINES

**GRI = Global Reporting Initiative; IPIECA = International Petroleum Industry Environmental Conservation Association
CAPP = Canadian Association of Petroleum Producers Stewardship Program; EBR = Enhanced Business Reporting**

Table 1

BACKGROUND	GRI	IPIECA	CAPP	EBR
Date of creation/revision	First version 2000 Second version 2002 Third version 2006	Established April 2005	Stewardship launched in 1999; First report in 2000; Major revision and expansion in 2003; Revised each year since.	Draft framework released Oct./Nov. 2005
Partners/Associates	United Nations Environment Programme on governance only	American Petroleum Institute (API)	None	Based on PricewaterhouseCoopers Value Reporting Framework
Home	The Netherlands	UK	Canada	US
Stakeholder input	A consensus of dialogue with a wide variety of stakeholders. Structured Feedback Process and exposure drafts; Continual testing and improvement	Joint Corporate Reporting Task Force consisting of large oil and gas companies worldwide	Industry members in 1999. Stakeholder interviews in 2003; Stewardship Advisory Group in 2005-06.	Consortium of independent, market-driven, international stakeholders within the business, regulatory, and academic community.
Reach (primary users of guidelines)	Organizations of any size, sector, or location in the world	The world's largest oil and gas companies and members of IPIECA	Members of CAPP (upstream oil and gas) for submitting data for Stewardship Report	Any company that has securities publicly traded in the United States
Reporting Entity	Entities over which the reporting company has control or significant influence included in indicators; other entities with key challenges should be discussed in the narrative disclosures	Neither operated or equity method is recommended but guideline indicates that companies should clearly state the method chosen	Operating entity (not ownership equity) is used	Consolidated operations by ownership

Table 2

PHILOSOPHICAL FOUNDATION	GRI	IPIECA	CAPP	EBR
Vision, Mission	Provide a trusted and credible framework for sustainability reporting (economic, environmental, social)	Assist companies interested in voluntarily reporting on environmental, health and safety, social, and economic performance	Facilitate industry stewardship for CAPP members	Promote greater transparency of corporate strategy and performance. Extends reporting to additional areas that create value
Objectives	Provide principles, guidelines, technical protocols, and sector supplements for defining report content and ensuring quality of reported information through standard disclosures.	Create a common framework for sustainability or non-financial reporting for better understanding of performance of oil and gas companies.	Assist CAPP members in preparing and submitting their benchmarking data in efficient and consistent way for the Stewardship Report	Provide shareholders & other stakeholders with decision-making information in addition to financial reporting according to GAAP
Rules or Principles Based	Principles are used for determining (a) issues and indicators, and (b) ensuring the quality and appropriate presentation. Principles are elaborated by providing definitions, explanations, and self-tests.	Consistent with GRI Principles, but primarily rules based	Primarily rules based; principles are stated for the industry's EMS (Stewardship Program) but not for the reporting process	Disclosure Framework is based on the Conceptual Framework of Financial Accounting Standards Board Concepts Statements and Statements of Financial Accounting Standards
Principles	Report content: inclusiveness, relevance and materiality, sustainability context, completeness Reported information: balance, comparability, accuracy, timeliness, clarity, assurability	General reporting principles are relevance, transparency, consistency, completeness, accuracy	The Stewardship Program, as an industry environmental management system, has stated principles; however, no specific principles are stated for reporting	Based primarily on the principle that disclosures should provide information that is useful to make rational investment and credit decisions
Commitment to the report	Senior position with operational responsibility must sign	Not discussed, but CEO statement suggested	Not discussed	Cannot determine at this time
Motivation for development	More comparable, standard reporting format and higher quality standards in sustainability reports	Attempt to provide a sector supplement for the oil and gas industry consistent with GRI reporting guidelines	Declining reputation of industry; demand from stakeholders; consistency with other industries (chemical and forestry)	Information deficiency that results when companies are reporting only financial information according to GAAP
Method of communicating guidelines	Website, reports, exposure drafts, workshops, stakeholder feedback sessions	Website – primarily to members	Website – primarily to members	Website, publications, distribution through professional organizations and meetings

Table 3

CONTENT Overview	GRI	IPIECA	CAPP	EBR
Scope (dimensions)	Three-dimensional: economic, environment, and social	Three dimensions, but environment and economic are more developed than social. Health and safety is separate.	Primarily environment and safety; economic includes gross production; appendix discusses social	Financial and non-financial information (including environment and social) useful to investors and creditors.
Balanced reporting (favorable/unfavorable)	Report should provide a balanced and reasonable presentation	Not discussed	Not discussed	Cannot determine
Benchmarks and trends	Suggests benchmarking against earlier performance, objectives, and other organizations but no specific number of years required	Not mentioned for reporting, only that companies rely on industry associations to facilitate benchmarking	Not mentioned for report to include benchmarks but available to participating companies	Cannot determine
Disclosures (report content)	Standard disclosures include: strategy and analysis ⁱ ; organizational profile ⁱⁱ ; report parameters ⁱⁱⁱ ; governance, external commitments, and stakeholder engagement. In addition, for each dimension (economic, environmental, and social) management approach, core, and additional indicators are provided.	Suggested report sections include: executive summary and CEO statement; company profile and boundaries; sustainability statements; management systems; and performance. Core and/or additional indicators are suggested for each dimension.	Because the industry association prepares the final report and aggregates the data, the Stewardship guidelines only provide information on who reports, what to report, and data preparation and submission. A line-by-line guide is provided for each indicator.	General categories include business landscape ^{iv} ; strategy ^v ; competencies and resources ^{vi} ; and performance ^{vii} .
Approach to reporting indicators	Technical protocols are provided for all indicators. They provide sections on: relevance, compilation, definitions, documentation and references.	Each indicator is detailed with definition, scope, purpose, units to use for reporting, and other considerations.	Each indicator is detailed with companies to which it applies, the definition, the scope, information sources (where to acquire the info.), calculation, benchmarking indicator, data validation checks	Cannot determine

ⁱ Sustainability statements and related risks and opportunitiesⁱⁱ Name of company, major products, structure, countries, legal form and ownership, markets, scale, major changesⁱⁱⁱ Scope, management processes, reporting boundary, GRI context index, and assurance^{iv} Overview, competition, customers, technological change, shareholder relations, capital availability, legal, political, regulatory^v Business model, organization, governance, risk management, environmental and social, business portfolio, resource allocation, product life cycle^{vi} Key processes, customer satisfaction, people, innovation, supply chain, intellectual property, information & technology, financial assets, physical assets^{vii} Profitability, liquidity, operating, segment

Table 3a

CONTENT Economic Performance	GRI	IPIECA	CAPP	EBR
General Definition	Impacts on the economic conditions of stakeholders, and on local, national and/or global economic systems, including flow of capital among different stakeholders and main economic impacts on society.	Financial performance as well as the company's affects on economic circumstances of its stakeholders (key economic interactions)	Gross production	
General Categories of Indicators	Economic performance, market presence, indirect economic impacts	Core: governments, shareholders, suppliers and contractors. Additional: governments, employees, lenders and holders of debt securities	Mandatory: gross production	

Table 3b

CONTENT Environment	GRI	IPIECA	CAPP	EBR
General Definition	Impacts on living and non-living natural systems (land, air and water). Covers input, output; biodiversity; compliance; expenditures, and impacts of products and services.	Environment impacts	Environmental impacts	
General Categories of Indicators	Materials, energy, water, biodiversity; emissions, effluents, and waste; products and services; compliance; transport, and expenditures	Core and additional: spills and discharges; emissions, resource use, other environmental indicators (EMS, biodiversity). Additional: wastes and residual materials	Mandatory: greenhouse emissions, sulphur dioxide and hydrogen sulphide, benzene emissions, flaring and venting, nitrogen oxides, abandonment and reclamation, spills and releases, and water use	

Table 3c

CONTENT Health and Safety	GRI	IPIECA	CAPP	EBR
General Definition	Under Social Performance: Labor Practices and Decent Work	Health and Safety Indicators	Health and Safety Indicators	
General Categories of Indicators	Employment, labor/management relations, occupational health and safety, training and education, diversity and equal opportunity	Core: management systems, employee participation, workforce health, injury and illness rates, product related health risks	Mandatory: for employees: hours worked, recordable injuries, lost time injuries. Non-mandatory: for contractor	

Table 3d

CONTENT Human Rights and Ethics Performance	GRI	IPIECA	CAPP	EBR
General Definition	Under social performance: impacts on the social system in which it operates: human rights, and issues affecting consumers, community and other stakeholders, product responsibility	Social responsibility indicators	Social indicators	
General Categories	HR: Investment and procurement practices; non-discrimination ^{viii} ; freedom of association and collective bargaining ^{ix} ; abolition of child labor ^x ; prevention of forced and compulsory labor ^{xi} ; disciplinary practices; security practices; and indigenous rights. Society: Community; corruption; public policy; anti-competitive behavior; compliance Product Responsibility: Customer health and safety; products & service labeling; marketing communications; customer privacy; and compliance	Core and Additional: human rights, business ethics, employment practices, community and society	Non-mandatory: Work force employee profile Appendix: Social Indicator	

^{viii} As defined in ILO conventions 100 and 111

^{ix} As defined in ILO conventions 87 & 98

^x As defined in ILO conventions 138 & 182

^{xi} As defined in ILO conventions 29 & 105

Table 4

IMPLEMENTATION PROCESS	GRI	IPIECA	CAPP	EBR
Support/Training	Workshops throughout the world to help understand and use the guidelines; technical protocols, sector supplements	Cannot determine	2005-06 tools and training reviews	Cannot determine
Mandatory/voluntary	Voluntary	Voluntary	Mandatory for CAPP members since 2003	Cannot determine
Incentives	Increased credibility of sustainability reporting	Improved sustainability reporting for the oil and gas industry	Declining reputation of industry	Better decision making
Digital Support	In process of developing digital support tools that will be XBRL compatible.	Cannot determine	Digitized spreadsheet provided to aid individual companies in the reporting process	Plans are for the reporting to be XBRL compatible

Table 5

ASSURANCE STATEMENTS and EVALUATION	GRI	IPIECA	CAPP	EBR
Type (objective, 3 rd party)	Recommend the use of independent external assurance	Makes no specific recommendation for internal/external assurance	Guidelines do not address this. Report contains a third party assurance statement that data collection, validation, analysis, and reporting were consistent with Benchmarking Validation Methodology, but individual company data were not reviewed.	Too early to determine
Required/voluntary	Voluntary	No recommendation	Not discussed	Too early to determine
Internal control processes	Internal audit processes are important for supporting management of information and preparation of the report.	The information quality principle suggests that the company’s methodologies should be discussed.	The Benchmarking Validation Methodology contains elaborate internal controls to ensure data accuracy	Too early to determine
Stakeholder Engagement and feedback	Inclusiveness requires identifying stakeholders and how company responds to their issues.	Recommends stakeholder engagement and disclosure of engagement process. At a minimum, identify major stakeholders	Not discussed	Not discussed
