

SustainAbility



United Nations  
Environment  
Programme



Engaging  
Stakeholders

# The Oil Sector Report

## A Review of Environmental Disclosure in the Oil Industry





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## Publication details

Engaging Stakeholders  
*The Oil Sector Report*  
First Edition 1999  
ISBN 0 9521904 9 4

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### Production

**The Beacon Press** +44 (0)1825 768611  
Printed using pureprint™ technology to environmental standards ISO 14001 and EMAS.

### Paper suppliers

**Paperback** +44 (0)181 980 2233  
Printed on Envirocote 135gsm, made from 100% post-consumer waste with an environmental classification of NAPM HSMO 100v.

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**Tellus Institute**, US  
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# Forewords

## UNEP foreword

The corporate accountability agenda continues to evolve rapidly, but the rate of progress varies significantly from country to country and from sector to sector. Our decision to begin the new series of sector disclosure reports with the oil industry hardly needs explaining. Following a number of oil spills and accidents, the sector has been in the public eye for decades. The climate change agenda looms ever larger on the political radar screen. At the same time, more positively, a number of oil companies have helped lead the field in terms of environmental and social disclosures.

This latest project in the *Engaging Stakeholders* programme is designed to address one of the programme's long-standing objectives: to encourage greater comparability in reported performance across entire industry sectors and, ultimately, across industry in general. It also serves as a contribution to the UN Secretary General's Kofi Anan's Global Compact which aims to "...initiate a global compact of shared values and principles, which will give a human face to the global market".

The project began as a survey of current industry practice to help build the platform for a common 'best practice' reporting framework. As a result of the work reported here, we now believe that any such framework needs to be developed in both a 'top down' and a 'bottom up' manner.

The 'top down' approach would develop a best practice framework, to which all companies should strive. The **Global Reporting Initiative (GRI)** should be of enormous value here. The 'bottom up' framework, by contrast, would strengthen the base of reporting - by convincing more companies to report, by improving inter-company comparisons, and by delving into the actual indicators used.

This report is designed to provoke discussion and continuous improvement towards much greater levels of commonality and benchmarkability in oil sector disclosures.

**Jacqueline Aloisi de Larderel**  
Director United Nations Environment Programme, Industry and Environment Office, Paris

## SustainAbility foreword

Our *Engaging Stakeholders* programme with **UNEP** has entered a new phase in its evolution. When Shelly (Fennell) and Helen (Stibbard) first suggested a sector study on how the oil industry is addressing environmental and social disclosure expectations, my first reaction was sceptical. Surely by now, I countered, the world has a pretty good idea of the agenda for Big Oil - and of the way that leading companies are reporting at least their environmental performance? As it turns out, our first sector project has spotlighted just how much there still is to do.

At a time when many sectors of industry are being challenged to account for, audit and report on their 'triple bottom line' performance, we propose to focus a growing proportion of our effort on making it easier for companies to respond both effectively and efficiently. We would be very pleased to have your comments on the report.

Your feedback will help us in developing future reports in this series. Indeed, despite my initial scepticism, the response to this first sector study has encouraged us to begin a second, this time focusing on the life sciences sector. Others will follow.

**John Elkington**  
Chairman, SustainAbility

## The authors' foreword

When we set ourselves the ambitious task of getting fifty of the world's largest oil companies to reveal the details of their environmental reporting strategies, we were uncertain of what the outcome would be.

On the whole, we have been delighted with the quantity and quality of response. In particular, we would like to express our thanks to the **Project Advisory Group**, many of whom devoted a great deal of time and energy to the project by providing advice and commenting on early drafts.

Special thanks should go to Virginia Terry who wrote the section on social reporting, and to Christèle Delbé who conducted the research for this section, to Lynne Elvins who designed the report, to Rupert Bassett for the design framework, and to Geoff Lye, John Elkington, and Vernon Jennings for their advice and guidance.

In addition, we must thank Tomoo Machiba for contacting the Japanese oil companies and Susan Causey at the **Prince of Wales Business Leaders Forum** for contacting the Russian oil companies in the survey.

Jacqueline Aloisi de Larderel and Nancy Bennet of **UNEP** were, as always, invaluable partners in this exercise.

Finally, we are very grateful to the sponsoring companies for their continued financial and intellectual support to the *Engaging Stakeholders* programme.

**Shelly Fennell**, Director and **Helen Stibbard**, Research Associate SustainAbility, London

# Executive summary

The *Oil Sector Report* is the first of a planned series of studies to examine how individual industries are addressing the expanding environmental and social reporting agenda. The report is part of an ongoing partnership between the United Nations Environment Programme (UNEP) and Sustainability, which aims to promote expanded company reporting and stakeholder engagement across the 'triple bottom line' – the environmental, social, and economic dimensions of a company's activities – in all sectors.

## Project goals

This report aims to be a catalyst for the following goals:

- more reporting companies;
- higher quality and more comprehensive reporting; and
- greater comparability of reporting across the sector – and industry in general.

From the outset, we have advocated a common, 'best practice' reporting framework for the sector as the way to achieve these goals. With the impressive progress of the emerging **Global Reporting Initiative (GRI)** standard, we recommend that such a framework aim for compatibility with **GRI**.

As we explain in the report, we believe that in the short term the three goals are somewhat incompatible. Getting more companies to report on environmental performance – at present a wholly voluntary effort in most countries – suggests that reporting needs to be made simpler, at least at the outset. Likewise, moving to greater comparability across companies is made easier by starting with a smaller number of reported areas.

To address this short-term incompatibility, the *Oil Sector Report* proposes a simultaneous top-down and bottom-up approach.

The top-down approach would set the standard by which companies should judge their reporting efforts, while the bottom-up approach would improve the base of reporting, indicator by indicator.

## Project methodology

We conducted an original mapping of current and planned disclosure using a set of commonly used environmental indicators at 50 leading international oil companies.

The companies chosen were those included in the **Financial Times** publication, *Global Oil Company Profiles: A Strategic Guide to the Key Players in the Global Oil Industry*, along with four additional companies we consider to be on the leading edge of environmental performance disclosure (**Saga Petroleum, Statoil, Sunoco and Suncor**).

Of the 50 companies, 31 reviewed and supplemented the initial results ('the respondents'). Respondents included all of the major integrated companies, with the exception of **Amoco** (now part of **BP Amoco**), **Exxon** (to be merged with **Mobil**) and **Total** (now **TotalFina**).

In addition to reviewing the findings on their own companies, a number of oil companies contributed to the overall project direction as members of our **Project Advisory Group**. Their input and support is gratefully acknowledged.

While most **Project Advisory Group** members were broadly supportive of the project direction and draft findings, please note that individual members do not necessarily support or endorse the conclusions or recommendations in this report.

## Report highlights

The *Oil Sector Report* is presented in four main parts:

**Part 1 maps the current state of play in the industry. We found that:**

- while reporting is becoming standard business practice among larger companies, the sector's overall rate of reporting is brought down by small companies, upstream-only companies, state-owned companies, and project-based consortia;
- quantitative data in current environmental reporting primarily relates to inputs and outputs, significant incidents, environmental expenditure, compliance, and management policies and systems;
- notably absent from most reports are measures related to actual impacts, performance targets, disturbances to land, biodiversity, products, legacy impacts, or progress toward sustainability;
- companies are split over the benefits of third-party report verification, which aims to raise the level of trust readers have in voluntarily produced corporate environmental reports (CERs); and
- two major obstacles seriously detract from the value of current environmental reporting in the industry – the lack of clarity within individual reports about what the data cover, and the lack of comparability between reports. At present, two companies may appear to be reporting on the same aspect, but are in practice reporting on very different things.

## The oil sector is well positioned to develop a common reporting framework, valuable both externally and internally.

**Part 2 aims to help companies to begin reporting or to improve their ongoing reporting efforts. We first explore the reporting implications of six major drivers for greater corporate transparency, including the increasing and/or emerging pressures to:**

- satisfy communities' and individuals' 'right-to-know' about impacts which directly affect their health, safety and local environment;
- improve actual company performance in the social and environmental arena through the process of measuring and publicly reporting on progress in these areas;
- demonstrate corporate accountability for the social and environmental impacts of their operations by publicly reporting these impacts;
- enable aggregation of emissions levels and resource use across companies, particularly post-Kyoto in the area of greenhouse gas emissions;
- add shareholder value through the demonstration of a superior ability to manage environmental and social impacts – and the communication of this competitive edge to financial analysts; and
- report contribution towards sustainability – by measuring and reporting 'triple bottom line' impacts and value added.

We also explore in greater detail emerging expectations for greater reporting of social and ethical dimensions of performance.

Key findings include:

- of the 50 survey companies, 28 are undertaking some form of systematic social disclosure, but approaches vary widely in both form and content;
- drivers of greater corporate social accountability include protection of 'licence to operate'; avoidance of risk from sensitive social issues; and staff recruitment and retention;
- key areas of stakeholder concern have been reflected in high-profile campaigns, such as those focused on human rights, distribution of the social costs and benefits of companies' operations, bribery and corruption, indigenous rights, security arrangements and labour conditions; and
- with limited agreement as to the nature of social indicators or how to measure social performance, there is a pressing need for greater convergence and coherence in the area of social reporting.

**Part 3 outlines our recommendations with respect to the content of a 'best-practice' reporting framework in the sector, and summarises the main lessons from the project.**

We conclude that, at present, current reports provide little to help the reader understand the basis of the data disclosed or to make genuine assessments, let alone comparisons, of a company's true environmental performance.

These characteristics are not exclusive to oil sector reporting, but rather are indicative of the state of environmental reporting more generally.

Nonetheless, we suggest that the oil sector is well positioned to tackle these areas of weakness, to generate higher value and more meaningful reporting.

We make the case for parallel development of a full set of aspects and indicators (to set the standard for best practice reporting) and a smaller, but expanding core subset that is harmonised for true inter-company comparability.

The full set of indicators would seek to reveal a company's commitment to – and delivery of – a progressive shift toward more sustainable products and operations.

We suggest that much of the groundwork for the framework is already in place, through the efforts of **GRI**, industry association indicator projects, inter-company benchmarking groups, and a host of resources on best practice environmental reporting.

**Part 4 provides key resources on reporting and disclosure. Included are:**

- surveys of mandatory and voluntary reporting guidelines and initiatives (Appendices 1 and 2);
- selected oil industry environmental guidelines and programmes (Appendix 3);
- examples of social reporting vehicles and disclosure, and **Institute for Social and Ethical Accountability (ISEA)** principles (Appendices 4 and 5); and
- profiles of the oil companies included in the survey (Appendix 6).

# Introduction

**Oil companies – like their counterparts in other sectors – are struggling to meet the ever rising expectations of corporate responsibility. As recently as a decade or so ago, a 'responsible' company was one that made a profit without breaking any laws or causing any high-profile disasters or scandals. The term now implies much greater accountability for – as well as a higher degree of transparency on – the environmental and social dimensions of a company's operations.**<sup>01</sup>

The *Oil Sector Report* is the first of a series of sector-focused studies to examine how individual industries are addressing the expanding environmental and social reporting agenda. The report is part of an ongoing partnership between the **United Nations Environment Programme (UNEP)** and **SustainAbility**, which aims to promote expanded company reporting and stakeholder engagement across the 'triple bottom line' – the environmental, social, and economic dimensions of a company's activities – in all sectors.<sup>02</sup>

Three previous **UNEP–SustainAbility** reports – *Company Environmental Reporting* (1994), *Engaging Stakeholders Volumes I & II* (1996) and *The 1997 Benchmark Survey* (1997) – assessed the state of the art in environmental reporting and benchmarked leading corporate environmental reports (CERs) against a set of 50 best practice criteria. Two recent reports – *The Social Reporting Report* (1998) and *The Internet Reporting Report* (1999) explore these new elements of the reporting agenda.

With this report, we take a concentrated look at how oil companies are reporting environmental performance.

We aim to reach a number of different audiences:

- oil companies, including those that seek to improve their own reporting, and non-reporters that aim to begin reporting;
- stakeholder groups, particularly those seeking a better grasp of the sector's environmental performance and those focused on 'right-to-know' issues; and
- governments, particularly agencies considering pollutant tracking and public access schemes.

## Project goals

This report aims to be a catalyst for the following goals:

- more reporting companies;
- higher quality and more comprehensive reporting; and
- greater comparability of reporting across the sector – and industry in general.

The primary focus is environmental reporting, and we do not explicitly deal with health and safety reporting.

As we explain in the report, we believe that these goals are ultimately complementary – but somewhat incompatible in the short term. The more expansive the required reporting effort, the greater the difficulty in convincing more companies to undertake what remains, at present, a voluntary effort in most countries. Similarly, the more aspects companies are called on to report, the greater the difficulty in ensuring true comparability across companies.

To address this short-term incompatibility, we propose a simultaneous 'top-down' and 'bottom-up' approach. By top-down, we mean an attempt to identify the standard by which best practice companies should evaluate their reporting efforts. This would include, for example, identifying the full range of aspects on which to report, specifying the recommended reporting indicators, and taking a view on a number of corollary issues, such as third-party verification.

By contrast, the complementary 'bottom-up' approach would begin from where the industry currently is with respect to reporting, and seek to improve the clarity and comparability of reported data on an indicator-by-indicator basis.

On an industry-wide level, there is a groundswell of support for a common reporting framework, as captured by the promising multi-stakeholder **Global Reporting Initiative (GRI)**, led by US-based **CERES**. We would strongly recommend that any sector framework aim for compatibility with the **GRI** guidelines (see page 61).

<sup>01</sup> See, for example, E&P Forum/UNEP, 'Environmental Management in Oil and Gas Exploration and Production', 1997 and Conservation International, 'Reinventing the Well', Volume 2, 1997 for information on social and environmental impacts.

<sup>02</sup> See John Elkington, *Cannibals with Forks: The Triple Bottom Line of 21st Century Business*, Capstone Publishing, UK, 1997; New Society Publishers, US, 1998

This report aims to be a catalyst for more reporting companies, higher quality and more comprehensive reporting, and greater comparability

## Organisation of report

The *Oil Sector Report* is presented in four main parts:

### Part 1 Current disclosure

Based on an original survey of 50 leading international oil companies, the report illustrates:

- current environmental reporting in the sector (the *Results Matrix*);
- which oil companies report – and which do not;
- the environmental issues covered by current reporting – and those left out;
- current and planned reporting efforts of the major industry players;
- major areas of strength and weakness in reporting across the industry; and
- two fundamental weaknesses – the lack of clarity within reports, and the lack of comparability between reports.

### Part 2 Drivers for disclosure

We present:

- six major drivers for greater corporate transparency; and
- emerging expectations for greater reporting on social and ethical dimensions of performance.

### Part 3 Towards a 'best practice' framework

We outline:

- our recommendations for an industry-wide best practice reporting framework;
- unfolding initiatives within the industry to define comparable indicators for inter-company benchmarking; and
- the main messages from the project.

### Part 4 Resources

Included are:

- surveys of mandatory and voluntary reporting guidelines and initiatives (Appendices 1 and 2);
- selected oil industry environmental guidelines and programmes (Appendix 3);
- examples of social reporting vehicles and disclosure, and **Institute for Social and Ethical Accountability (ISEA)** principles (Appendices 4 and 5); and
- profiles of the oil companies included in the survey (Appendix 6).

## The Project Advisory Group

The **Project Advisory Group** includes representatives of oil companies, NGOs and research organisations. While most **Project Advisory Group** members were broadly favourable with respect to the project goals and recommended direction, individual members do not necessarily agree with, support, or endorse the conclusions or recommendations.

## Terminology

In this report, we focus on the regular, public disclosure of company-level data on specific aspects of environmental performance, such as energy use or carbon dioxide (CO<sub>2</sub>) emissions.

The report uses **GRI** terminology (see page 61) for organising and presenting environmental information, which is also consistent with ISO 14000 and the **World Business Council for Sustainable Development (WBCSD)** work on environmental reporting. Key terms include:

### Category

General class or grouping of issues of concern to stakeholders (eg air, energy, local economic impacts).

### Aspect

Specific issue about which information is to be reported (eg greenhouse gas emissions, energy efficiency, corporate giving).

### Indicator

The most precise (and usually quantitative) measure of performance during a reporting period (eg metric tonnes of emissions, water consumption per unit of product, monetary contributions per year to host communities).

The full 84 page Oil Sector Report  
is available directly from:

[www.sustainability.co.uk](http://www.sustainability.co.uk)

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*The CEO Agenda*  
 1998  
 Highlights the findings of an international survey of chief executive officer (CEO) perspectives on the 'triple bottom line' of sustainable development. Discusses the board-level implications of stakeholder engagement and accountability.



*The Non-Reporting Report*  
 1998  
 Based on an international survey of 50 non-reporting companies, this report spotlights key barriers to disclosure and, learning from the experience of successful reporters, suggests ways forward.



*The Social Reporting Report*  
 1999  
 An introduction to social reporting, linking growing demands for social accountability with the wider sustainable development debate.



*The Internet Reporting Report*  
 1999  
 Explores the world of internet disclosures and reporting. Which CERs are on the www? What have net reporters learned? How have users reacted? Where will the exploding net take us next?



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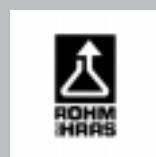
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