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WP Oil and Gas [draft] ESRS
(Upstream and services + Midstream to downstream)
Cover Note
continued discussion on drafting of the working papers

General approach to the review and approval of the Oil and Gas standard

1. The Oil and Gas draft ESRS is developed using the same general approach used for Coal and Mining (materiality, architecture, interaction with Sector agnostic standards, etc.). Accordingly, SR TEG members will not be asked to discuss and approve these concepts again for each standard. The discussion that took place for the Coal and Mining sector will be valid also for the other sectors.
2. The Oil and Gas draft ESRS has a very relevant overlap in terms of contents with the Coal and Mining draft ESRS. Accordingly, SR TEG members will not be asked to discuss and approve the overlapping content twice. The discussion that took place for the Coal and Mining sector will be valid also for Oil and Gas.
3. In particular, **SR TEG members are not expected nor requested to entirely read and review the Oil and Gas working paper, but will be asked to read, comment and discuss the content of the working paper that relate to the DRs mentioned in this cover note and highlighted in yellow in the working paper.**

Objective

4. The objectives of this session are:
5. To inform EFRAG SR TEG about the status of the standard, including:
 - (a) structure and content of the Oil and Gas [draft] ESRS V2, as explained in the paragraph 30 of the Cover Note;
 - (b) overview of main changes done in comparison to the version 1 (V.0.1), as explained in paragraphs 4 to 28 of the Cover Note;

¹ <https://efrag.org/Meetings/2301040904180178/EFRAG-SR-TEG-Meeting-16-January-2023>

- (c) feedback received from stakeholders on [draft] standard version V.0.1 and remaining to be addressed, presented in Appendix 1 to the Cover Note.
6. To receive feedback of EFRAG SR TEG about the following approaches and technical challenges:
- (a) disclosure Requirements excluded in the finalization of ESRS Set 1, which were not included in the Oil and Gas standard, as explained in the Appendix 2 of the Cover Note;
 - (b) changes to the Scope 3 emissions in Disclosure Requirement related to ESRS E1-6 – Gross scope 1,2,3 and Total GHG emissions), as explained in the paragraph 9 of the Cover Note;
 - (c) GHG emission intensity OG 3-E1 – GHG emission intensity of energy, as explained in paragraph 10 of the Cover Note;
 - (d) modification of disclosures related to E5 circular economy: extending the life of property, equipment and machinery assets; potential disclosure of information on the petrochemicals / petroleum products, as explained in the paragraph 17 of the Cover Note.
7. To get approval of EFRAG SR TEG on:
- (a) new disclosures added to the standard following the EFRAG SR TEG meetings on January 16th, January 25th and January 30th, as explained in paragraphs 16 and 21.

Overview of main changes in comparison to the V1 version:

General changes

- 8. Two sub-sector standards were merged together following the agreement reached in SR TEG on January 16: “Oil and Gas: Upstream and Services” and “Oil and Gas: Midstream and Downstream”.
- 9. The presented architecture of the paper, in particular the divisions made between the document’s main body and Appendix B – Application Requirements may not represent the target architecture of the standard. EFRAG writing team expects to adjust the structure according to the flow chart diagram presented to SR TEG on the 3 February 2023. Present version follows the principles of including all datapoints and mandatory requirements (what to disclose and “shall disclose” statements) as Disclosure Requirements in the main body of document, while the additional requirements (how to disclose, “shall consider” and “may” statements) are placed within the Application Requirements.
- 10. Also, the decision to split the main body and Application B in two distinct chapters (one covering the new DRs/AR introduced by this standard and one covering the datapoints/AR that specify DRs in sector agnostic standards) has still to be implemented.
- 11. Within the disclosure Requirement related to ESRS 2-SBM1-2 - Market position, strategy, business model(s) and value chain, direct economic value generated and distributed is proposed to be presented at the consolidated level, as suggested by IPIECA in its feedback.
- 12. The specific levels of disaggregation per are still marked in this version for discussion, accompanied with a clause “[TO BE DISCUSSED]”. The approach will be defined consistently with the content of the discussion of the 3 February.
 - (a) Disclosure Requirement OG 1 List of operational sites and infrastructure
 - (b) Disclosure Requirement related to ESRS E4-5 - Impact metrics related to biodiversity and ecosystems change

- (c) Disclosure Requirement related to ESRS S3-4 - Taking action on material impacts, and approaches to mitigating material risks and pursuing material opportunities related to affected communities, and effectiveness of those actions and approaches
- (d) Disclosure Requirement OG 10-S3 - Impact metrics on affected communities
- (e) Disclosure Requirement OG 14-G1 - Sales to, support received from and payments made to governments

Environment

13. A new definition of the site and material sites was proposed in OG 1 - List of operational sites and infrastructure, accompanied by definition in Appendix A. This represents an interim approach and will be revised following the decisions made within ESRS Mining, Quarrying and Coal standard. For oil and gas, we propose sites to be a) Concessioned areas for oil and gas exploration, currently under development or in production; b) tailing dams; c) refinery assets; and d) oil and gas transmission pipelines. We are not excluding other assets, such as LNG facilities, storage parks or gas stations, smaller pipelines, etc, but we leave it to the discretion of the undertaking to include those.
14. Changes were done to the Scope 3 emissions in Disclosure Requirement related to ESRS E1-6 – Gross scope 1,2,3 and Total GHG emissions: specification was added on how to measure scope 3, use of sold products for each segment of the value chain and a requirement for integrated oil and gas companies to report S3, USP at each stage of the value chain.
15. GHG emission intensity OG 3-E1 – GHG emission intensity of energy: specification of some of the differences in measurement per segment of the value chain was added; addition of CO₂/CWT for refineries as an operational intensity metric was added; carbon intensity of hydrogen production was added (following the feedback received from several stakeholders early in the process and the discussions held in EFRAG TEG). Next steps will be: 1) discuss the stringency of the CO₂/CWT DR (currently as a “shall”); 2) level of granularity of CO₂/CWT, if it requires disclosure by facility or if it can be consolidated at company level, when multiple refining assets exist within the portfolio of a company. CO₂/CWT is well develop facility benchmarking metric used as basis for the free allocation of EUAs (European Unit Allowances, this is CO₂ unit allowances under the EU ETS) to European refineries².
16. Changes were made to Disclosure Requirement related to ESRS E1-9 – Potential financial effects from material physical and transition risks and potential climate-related opportunities, following the received comments from EFRAG TEG related to metrics. which were not financial effects. Modifications to the text were done to reflect the potential financial effects to which the physical metrics are connected to. The time limitations did not allow for a validation of the current proposal, which is still considered a draft.
17. Tier safety events disclosures were removed from S1-14 (Health and safety indicators) and introduced within the Disclosure Requirement OG 4-E2 Industrial risk management. The Tier classification is used in relation to the process safety only, and not for health and safety purposes.
18. Requirements related to restoration plans were added in the paragraphs of Disclosure Requirement related to ESRS E4-3 Actions and resources related to biodiversity and ecosystems. Addition of this requirement is supported by the GRI Standards and feedback from stakeholders.
19. Actions and resources, including restoration plans related to ESRS E4-3 changed to incorporate both aspects included in GRI (use of mitigation hierarchy and its impact) as well as aspects related to decommissioning. Please note that a decommissioning plan is

² Proposed by CONCAWE and developed by Ecofys, it can be found at https://www.concawe.eu/wp-content/uploads/2017/01/rpt_12-9-2012-05440-01-e.pdf

not asked for each operational site, instead we ask to be disclosed if there is any operational site that does not have a decommissioning plan. Components of what a decommissioning plan should contain can be found in Application Requirement. Furthermore, the disclosure requests if site restoration plans exist or are foreseen for each site. If a restoration plan does not exist for a site, that site shall be disclosed.

20. We removed from the draft the required disclosure on targets and metrics related to implementing new technologies, products and services certified for considering biodiversity or conforming with new regulations on biodiversity. These requirements, previously present in Disclosure Requirement related to ESRS E4-4 - Targets related to biodiversity and ecosystems and ESRS E4-5 - Impact metrics related to biodiversity and ecosystems change, were not considered as relevant for the sector.
21. Following EFRAG TEG discussions, a new Disclosure Requirement OG 8-E3 – Marine resources was added to the draft. The objective of disclosure is to provide an understanding of the extent in which undertaking is involved in exploration of oil and gas deposits in the ocean areas. The approach followed in drafting this disclosure has been a risk approach: undertakings shall disclose their dependency on off-shore resources by disclosing total number of sites and total area of the sites located in the ocean.
22. Disclosure Requirement related to ESRS E5-5 – Resource outflows was complemented with a paragraph related to the volume (in cubic meters) and percent of crude oil and gas that is traded for the following activities: petrochemicals, petroleum products, unknown. The purpose of this additional paragraph is to gain an understanding of how much of the outflows are destined to be used in plastics production and it is intended to be discussed with EFRAG SR TEG. Within the same disclosure, information on tonnes of decommissioned materials was introduced. At the same time, we have decided not to introduce disclosures suggested by experts related to efforts to increase the life and efficiency of equipment and machinery assets, as considered not material in the overall context of oil and gas impacts.

Social and governance

23. The ESRS Set 1 Disclosure Requirement related to working hours, which was deleted in the sector agnostic standards finalization process, was added to the standard as an OG 11-S1. This addition is following the recommendations of EFRAG SRB Agenda paper from 14 December 2022, paragraph 24 to 28³.
24. The disclosures related to the recruitment of the top management from local communities in previous Disclosure Requirement related to S1-6 were identified as duplicated with some paragraphs of the previous content of Disclosure Requirements of S3-4. Following the ESRS Mining, Quarrying and Coal approach, the content of disclosures was removed from S1-6 and transferred to the requirements related to ESRS S3-4 - Taking action on material impacts, and approaches to mitigating material risks and pursuing material opportunities related to affected communities, and effectiveness of those actions and approaches.
25. Following EFRAG TEG discussions, a new reference the Nagoya and Montreal protocol was added in Application Requirement to ESRS S3-4 - Taking action on material impacts, and approaches to mitigating material risks and pursuing material opportunities related to affected communities, and effectiveness of those actions and approaches. This approach is expected to further evolve after receiving more detailed feedback of EFRAG TEG.
26. Disclosure Requirements related to misinformation to consumers were added in addition paragraphs of ESRS G1-5 – Political influence and lobbying activities. This addition follows the latest version of ESRS Mining, Quarrying and Coal approach.

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<https://efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2212120938015426%2F04-01%20-%20Sector%20specific%20ESRS.pdf>

27. Specific paragraphs of Disclosure Requirement related to ESRS G1-5 – Political influence and lobbying activities were requesting to disclosure of total monetary value of financial and in-kind political contributions made directly and indirectly by the organization by country and recipient/beneficiary, as well as how the monetary value of in-kind contributions was estimated. Those requirements were identified as repeatable with Set 1 ESRS G1-5 requirements and were deleted from the sector standard.
28. Disclosure Requirement OG 15-G1 – Beneficial owners was deleted following the received feedback from stakeholders.
29. Reference to Extractive Industry Transparency Initiative (EITI) was added to the Disclosure Requirement OG 14-G1 - Sales to, support received from and payments made to governments. This addition is made to align with the approach of ESRS Mining, Quarrying and Coal.
30. We recognize that there is a number of disclosures which share common characteristics with ESRS Mining, Quarrying and Coal and will need to be further reviewed following the evolution of the mentioned standard:
 - (a) Disclosure Requirement ESRS S 3-1 – Policies related to affected communities
 - (b) Disclosure Requirement related to ESRS S3-2 - Processes for engaging with affected communities about impacts
 - (c) Disclosure Requirement related to ESRS S3-3 - Processes to remediate negative impacts and channels for affected communities to raise concerns
 - (d) Disclosure Requirement related to ESRS S3-4 - Taking action on material impacts, and approaches to mitigating material risks and pursuing material opportunities related to affected communities, and effectiveness of those actions and approaches
 - (e) Disclosure Requirement OG 10-S3 – Impact metrics on affected communities
 - (f) Disclosure Requirement OG 11-S3 - Operations in or near areas of conflict
 - (g) Disclosure Requirement OG 12-S3 – Reserves in or near indigenous land
 - (h) Disclosure Requirement OG 13-S3 – Respect for human rights
 - (i) Disclosure Requirement related to ESRS G1-5 – Political influence and lobbying activities
 - (j) Disclosure Requirement related to ESRS G1-6 – Payment practices
 - (k) Disclosure Requirement OG 14-G1 – Sales to, support received from and payments made to governments
 - (l) Disclosure Requirement OG 15-G1 – Suppliers assessed for social impacts, taking in consideration the EFRAG TEG discussion related to assessment of suppliers for both social and environmental impact
 - (m) Disclosure Requirement OG 16-G1 – Anti-competitive
 - (n) Disclosure Requirement OG-17 [MIN-12-G1] – Number of data breaches, policies and practices relating to cybersecurity, where current text was aligned with the last available version of ESRS Mining, Quarrying and Coal, including moving it to the Governance section.

Other changes

31. Sector definition was updated to reflect the sub-sectors of Oil and Gas industry.
32. The Appendix A “Definitions” was updated to reflect the latest evolution of the document.
33. Harmonization of wording and disclosures with the ESRS Mining, Quarrying and Coal V2 was done, including minor redactional changes and wording clarifications.

Comments to open questions and technical challenges

34. The challenge related to the sector boundary issues, initially highlighted in the Cover note for EFRAG TEG meeting on January 16, 2023⁴. The Oil and gas industry is characterized by a multitude of business relationships between different enterprises with different accounting methods. This peculiarity has brought the companies related to the industry to utilize different accounting methods for different KPIs to be presented in the sustainability reports. The secretariat as started an initial document highlighting the issues (Appendix 3), but insufficient time as limited the ability to make concrete proposals to the issues found so far. We have approached some stakeholders also for their advice and expert opinion but limited time did not allow yet to conduct the meetings.

Structure and content of the Oil and Gas [draft] ESRS V2:

35. The presented Working paper includes:
- (a) 22 pages of the new Disclosure Requirements native to the Oil and Gas [draft] ESRS and Disclosure Requirements related to existing Set 1 Disclosure Requirements
 - (b) 4 pages of Defined terms (Appendix A)
 - (c) 11 pages of the Application Requirements (Appendix B), corresponding to both the new Disclosure Requirements of the standard, as well as Disclosure Requirements of Set 1
 - (d) 7 pages of Sustainability matters description (Appendix C)
 - (e) Appendix with NACE codes (Appendix D)

Agenda papers

36. In addition to this cover note and its Appendixes, the agenda papers for this session are:
- (a) Agenda paper SR TEG 230217 - Working paper - Oil and Gas (integrated) v2.3 CLEAN
 - (b) Agenda paper SR TEG 230217 - Working paper - Oil and Gas (integrated) v2.3_redline
 - (c) Excel commentary template

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<https://efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2301040904180178%2F04-01%20SR%20TEG%20230116%20-%20Cover%20note%20for%20Oil%20and%20Gas%20working%20papers.pdf>

Appendix 1.

Feedback received from stakeholders on V0.1 of the standard

The secretariat has received three comments on the first version of the standards on the 10th and 12 of February. Comments were received from [IPIECA](#) and [Resource Governance](#). Due to time constraints it has not been possible to address all comments, but we would like to publicly acknowledge their reception.

IPIECA comments were sent following a meeting held between the writing team and IPIECA, on the 1st of February.

Furthermore, we would like to note a list of potential split views between the comments received and different stakeholders groups, namely:

1. On the use of the EITI standard and its incorporation into the standard;
2. Levels of geo-granularity used for disclosures;
3. Disclosure on payments to governments.

Appendix 2.

Consideration given to the points discussed in TEG meeting of 14th of December 2022 related to DRs of ESRS EDs that have been deleted in the finalization of the sector-agnostic ESRS and that may be more relevant to specific sectors

Summary table

DR	Action
ESRS E1 Climate change ED: energy and GHG-intensive sectors: E1-1 Transition plan	Considered, included
E1-5 Energy consumption and mix: breakdown of non-renewable energy	Considered, not included
E1-14 Avoided GHG emissions	Considered, not included
DR E3-6 Marine resources related performance	Under consideration
DR 4-8 Biodiversity-friendly consumption and production metrics	Not considered
ESRS S1 Own workforce ED: DR S1-12 – Working hours (moved to sector specific).	Under consideration
ESRS G2 Business conduct ED: G2-4 – Anti-competitive behaviour prevention and detection	Considered, included
ESRS E5 Circular economy ED, the DRs E5-7 – Resource use optimisation and E5-8 – Circularity support	Under consideration
ESRS S2 Workers in the value chain, ESRS S3 Affected communities and ESRS S4 Consumers and end-users inclusion of DRs related to metrics	Considered, included
Decision tree for inclusion of data points	Under consideration
SASB and GRI mappings	Considered, included

Explanation note

The points noted in paragraphs 24 to 28, were considered in the following manner:

A1) ESRS E1 Climate change ED: energy and GHG-intensive sectors: E1-1 Transition plan: quantitative locked-in emissions;

This point is considered as very relevant of the sector, particularly upstream, and has been considered by inclusion of the following AR to E1-1

“When disclosing information on DR E1-1[16(d)] on potential locked-in GHG emissions from the undertaking’s assets and products, undertakings shall consider this to be the emissions potential of proven (P1) and probable (P2)

reserves of their oil and gas assets and shall calculate this potential considering the recommendations in (Russet, 2016).”

A2) E1-5 Energy consumption and mix: breakdown of non-renewable energy;

This point has been considered but not considered as relevant in the context of a sector which is one of the main suppliers of energy to the economy – even if, an energy intensive industry itself. The issue of decarbonizing fossil fuel extraction is considered by many a distraction. The main issue needs to be focused on investments done so that companies transition to a supply the economy with non-fossil, carbon-free energy.

A3) E1-14 Avoided GHG emissions;

This point has been considered but assessed as not relevant for this sector. Disclosure of avoided emissions is often linked to sustainability claims that are highly contested by NGOs, GHG accounting experts and other stakeholders. For example, claims can be made that when burning gas avoided emissions from coal and gasoline burning are being avoided. Numbers are often very large and can confuse non-expert audiences. It would not be appropriate to provide a platform for such claims within this sector-specific ESRS.

B) DR E3-6 Marine resources related performance: the DR was deleted because the disclosure on performance metrics was not considered mature enough to be required at sector-agnostic level.

Oil and Gas Upstream is the sector with highest level of revenues from ocean economy. Consideration has been given to this issue and is currently being explored. A disclosure on amount of oil and gas coming from off-shore explorations is feasible, but determining its relevance in the context of providing information to investors and stakeholders is less clear.

C) DR 4-8 Biodiversity-friendly consumption and production metrics: The DR was removed due to the difficulty of defining what biodiversity-friendly consumption and production really is. The DR may be added to a future Governance standard on responsible production and consumption. In sector-specific standards specific types of certificates may be referred to.

The challenges which were faced in the general standard are equally applicable to the oil and gas sector standard. What constitute a “biodiversity-friendly fossil fuel production” is a challenging exercise. For this reason, inclusion of such DR was not considered further.

D) ESRS S1 Own workforce ED: DR S1-12 – Working hours (moved to sector specific).

This specific requirement has not yet been considered, but it will be.

E) ESRS G2 Business conduct ED: G2-4 – Anti-competitive behaviour prevention and detection and G2-7 – Anti-competitive behaviour events have been eliminated from the sector agnostic standards to be included in sector standards where appropriate.

Has been considered and specific DRs and ARs proposed. Due to editing errors it did not appear in the first version of the standard. The DR considered would follow the GRI DR which asks:

“The reporting organization shall report the following information:

- a) Number of legal actions pending or completed during the reporting period regarding anti-competitive behavior and violations of anti-trust and monopoly legislation in which the organization has been identified as a participant.
- b) Main outcomes of completed legal actions, including any decisions or judgements.”

F) For ESRS E5 Circular economy ED, the DRs E5-7 –Resource use optimisation and E5-8 – Circularity support have been significantly simplified. To be verified whether there are sector standards that would benefit from the inclusion of specifications related to them.

For Oil and Gas only waste has been considered and included into the standard related to E5. However, there was consideration if the issue of plastics should also be addressed in this sector, given that oil and gas is the main raw material for most plastics. This topic is currently being explored.

G) In addition, ESRS S2 Workers in the value chain, ESRS S3 Affected communities and ESRS S4 Consumers and end-users do not include DRs related to metrics, as they are considered relevant at sector level. Accordingly, the sector specific draft ESRS will consider metrics to cover the sustainability matters in those standards.

There are specific metrics that have been suggested for oil and gas, as well as disclosure requirements, for example: proved and probable reserves in or near indigenous land. There is potential to include a few others but this will need further research.

H) Taking inspiration from the decision tree adopted in the finalisation of the sector agnostic ESRS after the public consultation, the EFRAG Secretariat recommends to systematically factor into the decision making that will lead to the EDs to be put in consultation the cost/benefit considerations. This means that, per each datapoint available in the sources described above, the relevance of the resulting information would be considered jointly with the costs to produce it. On the basis of these considerations and depending on its nature, the result could be: (a) include as additional datapoint in a DR, (b) include as ‘shall consider’ guidance to be applied in implementing an existing datapoint in a DR (either a sector agnostic DR or a sector specific DR), (c) include as a voluntary recommendation to encourage good practices (‘may’ disclose).

This type of consideration is being taken into account while drafting the standard, as well as in the SRT and SRB reviews. We try to have a rationale for the inclusion of requirements, which may include cost/benefit considerations, although these can be quite subjective.

I) Determining the appropriate number of datapoints to be added to the sustainability statements on a sector-specific basis requires judgement. In order to allow a transparent illustration of how this judgement has been exercised and allow for a more efficient consultation process, the EFRAG Secretariat proposes to include in the EDs one appendix per each source (SASB, GRI, etc.) that illustrates which of the datapoints in the source are included in the ED and which are not included. A specific question in the ED would support the validation of this process per each standard and per each source, with a reasonably limited number of questions (one per each source).

This recommendation has been considered and such maps have been provided and will continue to be updated and improved.

Appendix 3.

Consolidation boundaries and operational control

The context

1. The oil and gas industry operations are complex in terms of often multiple entities, equity share and contractual arrangements. The "[Deepwater Horizon](#)" case shows an example of different independent entities involved: the primary leaseholder of site, the drilling contractor, the infrastructure owner, as well as other contractors. In this context, it is important to ensure that the sector standard considers the whole boundary of activity, whether it is in relation to GHG accounting or health and safety issues and industrial risk management.

2. Right now, sustainability information in large groups in the sector is often disclosed with different perimeters such as "equity", "operated", "direct control", depending on the type of information. The [IPIECA guidelines](#) identify four approaches for consolidating data within the report boundary: operational, equity share, workforce approach, and corporate approach. Table below gives a [tentative] picture of common practice by oil and gas companies.

Reporting area	Consolidation boundary
Reserves	Equity share
GHG	Operational control
Health and safety	Workforce approach
Pollution	Operational control
Financials	Financial control

[tentative indication of different boundaries used for different reporting areas]

3. A more detailed guidance with respect to the sector boundaries perimeter defined in standard is needed. Such a guidance can be defined in the form of application requirement to ESRS1 5.1 "Reporting undertaking and value chain" and mirror the approach of IPIECA which defines different perimeters of activities. As an alternative, introducing AR to the ESRS2 DCP-A, DC-A, DC-M or DC-T in the Oil and Gas standard can be evaluated.

4. The topical disclosure requirements should be then referred to the specific boundaries approach defined in the oil and gas specification of the general standard, for example:

- a) Environmental data: Operational approach perimeter
- b) Occupational data: Workforce approach perimeter
- c) HSE data: Workforce approach perimeter
- d) Processes, policies, systems: Corporate approach

5. Given the complexity of the sector's value chain, a special attention needs to be extended to the clarity of disclosure requirements and providing as much as possible instructions towards data calculation, as well as limiting the estimates use to foster maximum comparability.