CANADIAN ENERGY RESEARCH INSTITUTE

ESG Reporting — A Good Practice

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ESG reporting and ranking have been gaining significant importance worldwide, especially in the North American and European markets. Environment, Social, and Governance reporting criteria are essential parameters that help investment communities, governments, and organizations understand the impacts of business activities before a decision dealing with investments or policies. Companies can also use it to plan future steps being taken into consideration to improve their environmental and social impacts. As part of our ongoing research into ESG in energy sectors, we have looked at several different frameworks and stock exchanges across different nations to understand the common frameworks between countries and missing links to form a formidable bridge towards understanding ESGs grander scale.

An analysis was carried out to study the different guidelines followed by ESG (Environmental, Social, and Governance) guidance reports published by the 55 stock exchanges part of the United Nations Sustainable Stock Exchanges (UNSSE) worldwide. It revealed that 99% of the reports stick to GRI (Global Reporting Initiative), followed by 76% reports abiding by the SASB (Sustainability Accounting Standards Board) and IIRC (International Integrated Reporting Council) guidelines. 67% of the reports followed CDP (Carbon Disclosure Project), and 51% of the reports following TCFD (Task Force on Climate-Related Financial Disclosure) (Data as of December 2020). These are the common frameworks chosen as part of reporting protocols by the organizations to demonstrate ESG reporting standards' integration into their annual reports for stakeholders and securing investments.

As part of the next stage of understanding ESG standings, we have researched how ESGs are preferred to report and what a good report should be and what can be defined as a good report. A detailed analysis was carried out on over 100 oil and gas companies worldwide, with ESG reports presented as part of their annual reports. This list of organizations was obtained from the public domain.

To understand the issues more granularly, these organizations were split based on their region of operations to compare with competitors and better understand how a region was performing regarding ESG's. Furthermore, we looked at the type of business model if the company was focused on supply and demand or integrated activities to monitor any critical differences in the reporting structure. In this article, we will go through the most used ESG frameworks in every region, the type of datasets published in these reports, data comparisons, if any, and the type of operations in each region. The article will then highlight possible suggestions on information and reporting frameworks to improve ESG reports' quality. Lastly, the article will highlight a few challenges and limitations present with ESG reporting and the insight into the next stage of CERI's ESG research of the energy sector.

Canada

This analysis was carried out on 24 Canadian energy company's ESG reports whose operations mainly were to do with upstream activities (exploration & production) with a few integrated companies (production, transportation, refinery, and marketing). The areas of operations and assets of the organization are limited to Canadian activities. Upon analyzing the reports, the common frameworks in this region, starting with the most used to the least, are GRI, SASB, TCFD, IPIECA (International Petroleum Industry Environmental Conservation Association) CDP.

The majority of Canadian energy companies have a detailed understanding of ESG's and produce comprehensive reports compared with other major organizations worldwide. Many Canadian companies are aware of UN SDGs (United Nations Sustainable Development Goals) and are trying to focus their business model activities on supporting those goals. A significant portion of their reports define their criteria in detail and have published absolute data.

Furthermore, the companies provided data comparisons with historical trends in most of these reports, which help stakeholders understand a company's performance regarding environmental and social impacts. Some of those comparisons published relative data styles to view the company's effort to improve its ESG score. Our observation is that Canadian energy companies are well equipped with information on ESGs with workforce and efforts being channelled to address ESG performance.

United States

Sustainability reports of 17 oil and gas companies were analyzed, which covered ESG criteria in their reports. Several organizations of different business scales in the US market were not considered given the limitation of datasets available; thus, influential organizations were chosen to be represented. These companies were primarily upstream-focused companies, with a few with midstream operations. Frameworks followed in this region starting from the most used to the least are GRI, SASB, IPIECA, and TCFD. The highlight of the US market's ESG reports is data and information on hydraulic fracturing and seismic activities that have taken place and reported as part of their regulatory requirements. As they are mostly sustainability reports, they do not focus their discussions on ESG's but cover some information within the ESG framework.

Furthermore, several companies treat S as Safety measures instead of the social aspect and present the safety checks and hazards in place in the organization. Also, the reports published dealt with absolute data differently, indicating one of the significant challenges for ESG frameworks, consistent collection and representation of the data. Some reports focus on community and social responsibility activities. Overall, US oil and gas companies have considerable knowledge of ESGs, but the reporting and consistency of information can be improved.

Multinationals

In this article, multinational companies (MNC) are described as international companies with several operations, including assets present in Canada. 15 MNCs have assets in Canada, with the head of operations present across the US, Europe, or China. MNCs have either sustainability or annual report where they discuss their ESG criteria. Some companies, of course, produce more detailed reporting than others.

The ESG frameworks used for ESG reporting criteria are GRI, SASB, TCFD, and IPIECA. Given the larger scale of business funds for MNCs, some companies had created interactive platforms allowing interested stakeholders to navigate to find information, with all the datasets in the domain available to the public based on the region of operation, type of criteria, and units of information.

The bulk of these companies reported their activities using absolute data, whereas a few MNC's used relative datasets to address a few of their ESG criteria. The reports presented were an amalgamation of different regions of operation, and historical trends were presented in most reports. MNCs have a considerable understanding of ESGs, with datasets presented in interactive platforms. MNCs' limitation is they might have a lower impact on ESGs with lesser assets than higher performance asset areas; thus, producing separate reports would be beneficial.

South America

Two major integrated companies with published sustainability reports that had some information on ESG's were chosen for analysis for the South American region. Both the companies followed GRI and IPIECA for their reporting framework. Since they were sustainability reports, the emphasis was not given to all ESG criteria, but they did show the company's alignment with the UN SDGs. Both the companies stuck to absolute datasets with certain criteria compared to their previous year's dataset. The reports were inadequate relative to Canada and the US examples. There is scope for improvement in terms of ESG reports and information portrayed by the organization.

Australia

The Australian region has six dominant organizations with energy sector operations, focusing widely on upstream activities. They only had sustainability reports with some information on ESG criteria using the GRI, TCFD, and IPIECA frameworks. For the type of data, they were primarily absolute data with comparisons from previous years on specific criteria of ESGs. The region understands ESGs, but their general reporting is lacking in comparison to Canadian and US companies.

Asia

Three major integrated oil & gas producer's Sustainability reports were studied in the Asian region. ESG reporting was scarce in the Asian region, with the companies either from China or Indian origins. From these three reports, the frameworks followed were GRI, TCFD, and IIRC. Absolute data was reported in all three reports with comparisons under specific criteria. The reports included financial performance information, CSR activities, and ESG data. Again, these reports were lacking in comparison to those produced by North American companies.

Europe

The European region is a pioneer in ESG reporting, and seven integrated European oil and gas companies that published sustainability reports covering specific ESG criteria were analyzed for this article. These companies' most-followed frameworks were GRI, SASB, TCFD, and CDP, with companies aligning themselves with UN SDG goals.

The reports generated by these companies were short and precise, and to the point. Datasets were available in their reports or their webpages, and data comparisons to the previous years were also provided. The reports had information on the organization's short-term and long-term goals with information on projects taken up by the organization to improve the environment or social standards across their operations regions. A few companies provided insight into their renewable energy efforts and projects in hand, thus providing information to the stakeholders and investors on green energy efforts. Our observation is that the quality of the reports is a testament to the focus European companies have concerning ESG reporting.

Russia

Six companies were analyzed for ESG reports in the Russian region. The frameworks followed by these companies were GRI, TCFD, IPIECA, SASB, and CDP. Most of these reports were environment-focused and had absolute data with comparisons provided to previous years. There was inadequate information under the set of Governance criteria of the ESG frameworks. The reports suffered from minimal data reporting and demonstrated that the region has a basic idea of ESG frameworks and reports. Still, these reports are lacking in comparison to North American and EU companies' reporting.

ESG Report Good Practice

After analyzing many reports across different continents, our assessment suggests there are elements of good practice when it comes to ESG reporting. Note, that reporting is only the first but vital step to understanding ESG current performance and the foundation needed to improve. The following good practice observations have been deduced from the analysis:

- An outline of the frameworks that have been used to generate the report. Suggested frameworks are GRI, SASB, TCFD, IPIECA, with business models aligning to UN SDGs.
- Provide short-term and long-term goals of the organization with insight into its plan to progress towards the goals.
- The report covers all Environment, Social and Governance criteria allowing for insight across the set of ESG parameters and not focusing on one or two parameters to the detriment of management focus on the others.
- Datasets can be absolute or relative, with historical data comparison in terms of graphs and figures. In these reports, some means of validating the data are vital for the credibility of the reports. Data transparency is also essential.

ESG reports reviewed indicate various levels of understanding of the concepts and challenges to proper reporting.

The Report is done. Now what?

Beyond the reporting itself, consistency across frameworks and the proper representation of companies within a common cohort is needed. ESG reporting is at its heart a comparison between the same activities by different companies. ESG reporting is likely not a requirement when considering whether to invest in oil and gas activities versus consumer apparel manufacturing. Reporting is used to guide specific investment decisions between organizations in the same cohort. It is only the broader set of reports from the same cohort which can illuminate issues for governments to consider.

So, the proper context for ESG reporting is important for credible communications regarding a company's performance. This consistent context is currently lacking. There are no compliance standards in place in the regions that companies must follow, thus prompting data transparency and accuracy questions. Furthermore, given that organizations have no compliance standards, companies can choose to portray data in any terms they deem appropriate. Given the gaps in dataset transparency, the need for ESG data governance and compliance standards are of importance to the long-term utility of ESG reporting.

Furthermore, while this article deals with issues related to the reporting itself, even with improvements, there remains a wide variation of which criteria stakeholders use for their decisionmaking. Often it is a subset of the range of criteria, a subset that varies by stakeholder community and region. With such variety it can be challenging for companies to develop ESG reports to maximize their value and effectiveness.

CERI Natural Gas Report

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