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APPROACHES TO THE FORMATION OF ESG-STRATEGY FOR OIL AND GAS COMPANIES

The issue of measuring sustainable development indicators for enterprises of various industries today is not only a requirement of the time, but also a tool for improving the functioning of various spheres of their activities, such as environmental impact (E), social sphere (S) and governance (corporate) sphere (G). In this publication, special attention is paid to the ESG component of oil and gas companies, for which the trend towards ecologization of production, decarbonization, energy transition and corporate social responsibility is no less important and relevant.

This publication discusses a methodology for ESG reporting specifically for the oil and gas industry from IPIECA (International Petroleum Industry Environmental Conservation Association), the World Association of the Oil and Gas Industry, which aims to promote the environmental and social performance of the industry. [1].

The SDG Roadmap for the Oil and Gas Sector (the Roadmap) is an initiative led by IPIECA in collaboration with the World Business Council for Sustainable Development (WBCSD) [2, 3]. The Roadmap sets out how IPIECA, industry associations and oil and gas companies operating in the sector can move towards a low-emissions future while contributing to a healthier and more prosperous world, in line with the 2030 Agenda for Sustainable Development (adopted by the United Nations). The Roadmap was developed on the basis of IPIECA-UNDP-IFC in 2017.

Also, IPIECA's «Sustainability reporting guidance for the oil and gas industry» was published in 2020 as a guide for reporting on sustainability indicators for the oil and gas industry [4].

Based on these two documents, the following reporting principles should be outlined:

1. Relevance: the information provided should reflect the company's sustainability issues and meet the needs of both internal and external stakeholders.
2. Transparency: information should be presented clearly, in a timely and balanced manner, and presented as an independent review. This may include disclosure of any processes or restrictions that affect the preparation of the report.
3. Consistency: The credibility of the report is enhanced if the processes and their definitions are used systematically. It also helps to provide a

meaningful overview of the company's performance and to compare results both within the company and across the industry.

4. <u>Completeness: it is necessary to choose specific information that will correspond to the declared purpose, scope and boundaries of the report.</u>
5. <u>Accuracy: information should be reliable, objective and verified, giving a realistic picture of the company's position, performance and progress.</u>

The sustainability reporting process includes a number of sequential steps:

Step 1: plan development. Developing a sustainability report takes time and resources, depending on the size and complexity of the business. Having a detailed plan helps to provide clarity and find consensus on the main objectives of the report, who should approve and validate the content, and who will use the report.

Step 2: Stakeholder engagement. This step involves benefiting from stakeholder engagement by taking into account their views on the company and the sustainability challenges it faces before preparing the report. Thus, the final version of the report will be more relevant, accessible and credible. After its publication, in turn, stakeholder feedback can stimulate discussion of key issues and demonstrate how the results of engagement are used to improve reporting in the future.

How exactly should stakeholders be identified? There are several approaches that can be used to identify priority and key stakeholders. One simple, straightforward analysis technique is 'stakeholder mapping'. This involves prioritising different groups of stakeholders and helps to classify them into groups according to different characteristics, such as point of view, current or previous engagement, etc.

Step 3: Selection of material issues. Given the number of issues that can be addressed in a sustainability report, it is useful to have a simple and transparent process for deciding what to include. A material issue is any topic that, in the opinion of management or stakeholders, materially affects the company's performance and shapes external opinion. As a rule, these are the issues that have the greatest impact on value creation, as well as on the economic and reputational sustainability of the company in a positive or negative way.

3.1. Identification of material issues

Having identified its material issues, the first step is to list all sustainability issues that can be considered relevant to the company and its stakeholders. This should be based on a range of sources, such as global trends and identified issues (current and future), as well as standards and regulations.

3.2 Priority of issues

A common practice is to rank the relative importance of each issue by two criteria:

– The significance to the company of the actual or potential impact of the issue on business strategy and performance. It can represent either a risk or an opportunity for the company.

– Stakeholder relevance is the level of stakeholder assessments or decisions related to the impact of an issue on the company, whether negative or positive.

3.3 Verification and confirmation of issues

Before publishing the report, it is necessary to make sure that all the significant issues have been resolved. This can be done in several ways:

– Review your list of questions to determine whether you have given adequate attention to each question. You should also determine whether they are supported by appropriate description and evidence of data, including reporting indicators;

Obtain feedback: ask internal and external stakeholders to check the draft for accuracy, balance and any shortcomings. It is a good practice to obtain approval, or agreement at Board level, from the company's senior management.

3.4. Disclosure of the main processes and results

When preparing the report, it is necessary to choose the most appropriate format for disclosing material issues, as well as the appropriate communication channel. The information in the sustainability report can be complemented by disclosure in annual reports, websites, or more targeted communication with stakeholders. There are many ways to describe materiality processes and their results in reporting. For example, you can illustrate the prioritization of issues using a matrix diagram. A matrix can also be used to highlight the level of control a company has over an issue, or to show which stakeholder group has the most influence.

3.5 Review of important processes

After publication, feedback should be obtained to assess whether the report has met expectations. This can be feedback gathered by the reporting team or other investor contact groups or individuals tasked with stakeholder engagement. In terms of scope, often a few reviewers can provide a good basis for conclusions and informal stakeholder validation. This feedback can help to revise and improve the materiality process for future reports. During the year, indirect feedback can be gathered by answering questions, for example, from rating agencies. In this way, issues that were not answered in the report may be encountered and noted for future consideration.

Step 4: development of the report description. The sustainability report should demonstrate both quantitative and qualitative indicators that the company systematically assesses its operations and actions and manages them responsibly.

Step 5: development of the report data. The development of the report includes the identification of indicators, the choice of which is proposed by the management [4]. The management offers information on a number of typical issues relevant for many oil and gas companies, as well as indicators that demonstrate how these issues are addressed.

Each governance indicator contains two types of reporting elements. These elements define the types of information or data that can be collected and

documented in the report. Core elements are those that are necessary to provide a clear and reliable picture of the company's approach, results and progress and are based on reliable and verifiable information to enable comparison between companies. Additional elements are those that provide opportunities for more detailed and detailed reporting, depending on the company's situation; as well as provide information that reflects not generally accepted practices. This may include new practices, information for which no agreed methodologies exist, or information that is unique to a particular company. It also includes information that may be relevant to oil and gas companies that are expanding their portfolio with low-carbon or renewable energy sources.

Step 6: providing assurance. Assurance is a conclusion about the quality of the information provided that can confirm the application of the general reporting principles. Many companies have their own internal approval procedures, the application of which can be explained in the report. External, independent assurance can improve the quality and reliability of the information in the report. Rating agencies often have a positive attitude to the inclusion of external assurance in the report (audit).

Used information sources:

1. *International Petroleum Industry Environmental Conservation Association (IPIECA). Electronic resource: http://www.ipieca.org/about-us/*

2. *IPIECA Charts Course To Achieve UN's Sustainable Development Goals. Electronic resource: https://jpt.spe.org/ipieca-charts-course-to-achieve-uns-sustainable-development-goals*

3. *IPIECA Reports. Electronic resource: https://www.world-petroleum.org/resources/special-publications/187-ipieca-reports*

4. «Sustainability reporting guidance for the oil and gas industry», 2020. Electronic resource: https://www.iogp.org/bookstore/product/iogp-437-sustainability-reporting-guidance-for-the-oil-and-gas-industry/*