Guidance note 16 on transportation

Requirement 4.1(f)

The following guidance pertains to countries where revenues from the transportation of oil, gas, and minerals constitute one of the largest revenue streams in the extractive sector.

1. Summary

In some countries, revenues from the transit of oil, gas and minerals play an important role in the economy. Income from the transport of oil, natural gas and minerals en route to their ultimate market destinations can be difficult to track and therefore vulnerable to misuse or corruption. Transit of oil, gas and minerals may also be linked to the financing of armed groups and conflict in some circumstances.

Greater transparency has the potential to promote greater accountability, effectiveness and efficiency in these activities and markets. Until recently, the EITI focused on the “upstream” extractive sectors, with only a few countries (voluntarily) disclosing and reconciling transit payments. The EITI Standard states that, where revenues from the transportation of oil, gas and minerals constitute one of the largest revenue streams in the extractive sector, the government and state-owned enterprises (SOEs) are expected to disclose the revenues received (see Requirement 4.1.(f) and box 1 below). This includes revenues derived for the State from oil, gas and minerals transported through pipelines, or by rail, road or through ports.

4.1.(f) Transportation

Where revenues from the transportation of oil, gas and minerals constitute one of the largest revenue streams in the extractive sector, the government and state-owned enterprises (SOEs) are expected to disclose the revenues received. The published data must be disaggregated to levels commensurate with the reporting of other payments and revenue streams (Requirement 5.2.e). The EITI Report could include:

i. A description of the transportation arrangements including: the product; transportation route(s); and the relevant companies and government entities, including SOE(s), involved in transportation.

ii. Definitions of the relevant transportation taxes, tariffs or other relevant payments, and the methodologies used to calculate them.

iii. Disclosure of tariff rates and volume of the transported commodities.

iv. Disclosure of revenues received by government entities and SOE(s), in relation to transportation of oil, gas and minerals.

v. Where practicable, the multi-stakeholder group is encouraged to task the Independent Administrator with reconciling material payments and revenues associated with the transportation of oil, gas and minerals.

Source: EITI Standard, p. 28

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1 See OECD Due Diligence Guidance for Responsible Supply Chains from Conflict-Affected and High-Risk Areas
This note provides guidance to multi-stakeholder groups on how to address this requirement. As transportation is a relatively new area within the EITI, this note will be revised to reflect emerging best practice.

2. Guidance

The EITI International Secretariat recommends the following step-by-step approach to MSGs for reporting on revenues from transportation of oil, gas and minerals. It is recommended that the findings from each step are documented in MSG minutes, scoping studies or in the EITI Report itself.

Step 1 – Identify the transport system(s) in the country and the actors involved

For the commodities covered by the EITI reporting process, the MSG is advised to consider:

- How are the commodities transported (and, where relevant, exported)?
- Which actors are involved? Who owns the transport system/s? What is the role of the state and of state owned enterprises? What is the role of private companies?
- What are the capacities of the various transportation systems? What is the utilisation rate?
- What monitoring systems are in place?
- What information is already publicly available?

As part of this process, the MSG is encouraged to reach out to the parties involved in the provision, management or regulation of the relevant transportation systems, to get an understanding of what information is publicly available and to generate support for greater transparency.

Step 2 – Identify the relevant transport-related taxes, tariffs and other relevant payments

For the commodities covered by the reporting process, the MSG is advised to consider:

- What is the legal basis for charging taxes, tariffs and other payments?
- What methods are used to calculate these payments?
- What monitoring and quality assurance mechanisms are in place?
- Are any payments made in kind, i.e. in volumes of oil, gas or minerals?
- Which agencies collect the payments from transportation?
- Are the payments deductible against other taxes or fees?

Step 3 – Assess the materiality of the transportation revenues

Where the MSG has determined that there are transportation revenues, the MSG needs to establish whether these constitute one of the largest revenue streams in the extractive sector. The general approach set out in requirement 4.1(a) should inform this assessment:

*In advance of the reporting process, the multi-stakeholder group is required to agree which payments and revenues are material and therefore must be disclosed, including appropriate materiality definitions and thresholds. Payments and revenues are considered material if their omission or misstatement could significantly affect the comprehensiveness of the EITI Report. A description of each revenue stream, related materiality definitions and thresholds should be included in the EITI Report. In establishing materiality definitions and thresholds, the multi-stakeholder group should consider the size of the revenue streams relative to total revenues. The multi-stakeholder group should document the options considered and the rationale for establishing the definitions and thresholds.*
In some cases, the data needed to make this assessment will already be publicly available from companies, government authorities or other sources. In other cases, it may only be possible to estimate the size of the payments through consultations with stakeholders. While transportation revenues may be small compared to other revenue streams, the significance of these payments may be substantial, as the effective operation of these systems may be an essential feature of the production system. In addition, transport revenues may be a significant source of revenue for some local communities.

**Step 4 – Analysis of legal barriers to reporting and publishing data**

The MSG is advised to consider whether there are any significant legal or practical barriers preventing comprehensive disclosure of transportation payments and revenues. Common obstacles include confidentiality clauses in government and company contracts and conflicting government departmental remits. There is no one way of dealing with this issue – countries will have specific legal frameworks and other agreements that may affect implementation, and will have to respond to these in different ways.

**Step 5 – Development of reporting procedures**

Based on the assessment above, the MSG is advised to ensure that any material revenue streams related to transportation are reflected in the terms of reference for the Independent Administrator, and the reporting templates for government entities. Reporting templates are likely to vary significantly from country to country depending on the transportation systems in place. An example of the reporting template used in Chad’s 2012 EITI report is provided in figure 1 below. In accordance with requirement 4.1.f, the MSG may wish to ensure that the government discloses tariff rates and the volume of the transported commodities. Where practicable, the multi-stakeholder group is encouraged to task the Independent Administrator with reconciling material payments and revenues associated with the transport of oil, gas and minerals.

*Figure 1 - Example of reporting templates from Chad*
3. Case study: coverage of revenues from the Chad-Cameroon Pipeline in EITI Reports

Background

In 1996, the Government of Chad and the Government of Cameroon signed a bilateral agreement for the construction and operation of a 1070 km pipeline from multiple oil fields in Kome, Chad to an export terminal on the Atlantic Ocean in Kiribi, Cameroon\(^2\). The Pipeline (see figure 1) was inaugurated in July 2003.

The total value of the project exceeded US $3.7 billion, financed through equity and loans by the private operators, the government of Chad and the Government of Cameroon through World Bank and the European Investment Bank (EIB). The pipeline has a capacity of 250 000 bbl, and is managed by two joint ventures: the Chad Oil Transportation Company (TOTCO), and the Cameroon Oil Transportation Company (COTCO).

Figure 2: Map of the Chad Cameroon-Pipeline\(^1\)

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\(^1\) Chad-Cameroon Oil Pipeline, Center for Energy Economics. file:///C:/Users/kr03/Desktop/Chad/Chad_Cameroon%20Pipeline/Chad_Cameroon_Pipeline.pdf

\(^2\) Chad-Cameroon Oil Pipeline, Center for Energy Economics.
Coverage of the transport sector in EITI Reporting

The Government of Chad and the Government of Cameroon are minority shareholders in both companies COTCO and TOTCO and collect taxes from both companies. In addition to the usual taxes applicable to all companies operating in the two countries, the companies pay a transit fee that is proportionate to the distance and volume of oil transported. TOTCO manages 180 km of the pipeline on Chad’s territory and COTOCO manages 890 km of the pipeline on Cameroon’s territory. Chad’s 2011 EITI Report discloses the revenue flows from both transport companies to the Chadian government (see figure 2) and Cameroon’s 2011 EITI Report shows the revenue flows from the transport sector to the Cameroonian government (see figure 3).

Figure 3: Revenue flows from TOTCO and COTCO to the Government of Chad

Source: Joint presentation by EITI and Cameroon for the EITI Board on 18 October 2013 in Abidjan, Cote d’Ivoire

Source: Chad’s 2011 EITI Report produced by Fair Links and published by EITI Chad in May 2013
Contribution of the transport sector to the economy

The transit sector has unique properties in that it links the strategic interest of neighbouring countries. After construction transport projects are not labour intensive but can contribute significant fiscal revues to the government budget. In 2011 the transport sector contributed US $34,852,100, which represents 2.5% of total reported revenues in Cameroon, and US $25,869,000, which represents 1% of total reported revenues in Chad.