

EITI REQUIREMENT 4.4

Transportation revenues

Guidance Note



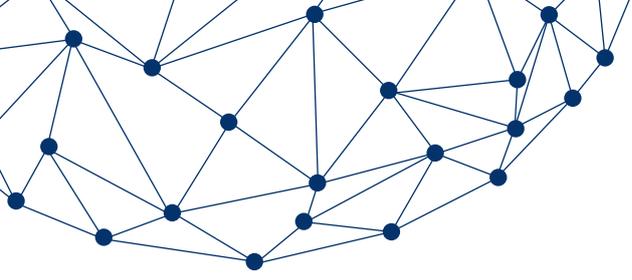
This note has been issued by the EITI International Secretariat to provide guidance to implementing countries on meeting the requirements in the EITI Standard. Readers are advised to refer to the EITI Standard directly, and to contact the International Secretariat to seek further clarification.

Contact details can be found at www.eiti.org

EITI International Secretariat
Rådhusgata 26, 0151 Oslo, Norway
+47 222 00 800
secretariat@eiti.org

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Executive summary

In some countries, revenues that are generated from the transport of oil, gas and minerals can have a significant contribution to 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 are therefore vulnerable to mismanagement or corruption. Transportation data can help citizens affected by transportation infrastructure (e.g. petroleum pipelines) to understand the importance of revenues generated from transportation, as well as the commodities, volumes and parties involved in such activities.

Greater transparency can promote greater accountability and efficiency in these activities. Until 2013, EITI reporting focused on “upstream” extractive sectors, with only a few countries voluntarily disclosing and reconciling transport payments. According to [Requirement 4.4](#) of the 2019 EITI Standard, governments and state-owned enterprises (SOEs) are expected to disclose revenues received from the transportation of oil, gas and minerals, where these revenues are significant. This includes revenues collected by the state and SOEs from oil, gas and minerals transported by rail, by road or through pipeline and ports.

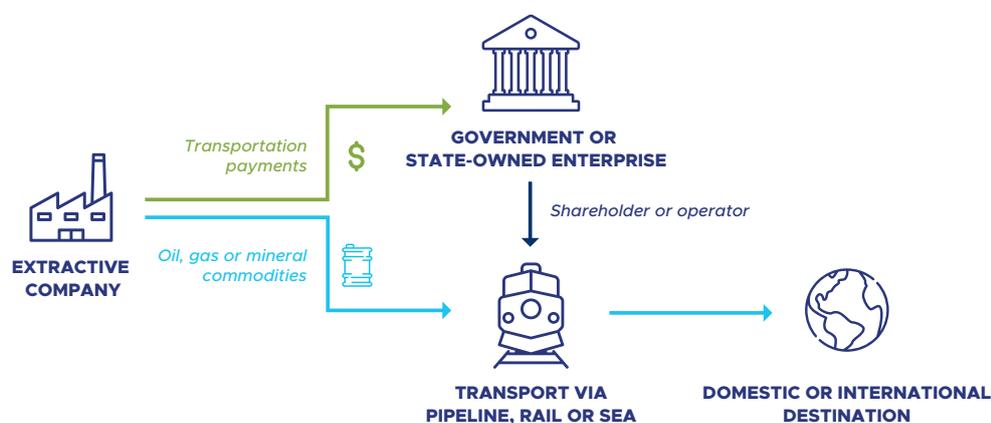
This note provides guidance to multi-stakeholder groups (MSGs) on how to report on transportation revenues as part of EITI implementation. It offers examples from implementing countries, including on the use and dissemination of data. The guidance is divided into two sets of steps: [Steps 1 to 3](#) address how to assess applicability and materiality, and [Steps 4 to 5](#) provide guidance on how to prepare for and ensure adequate disclosure.

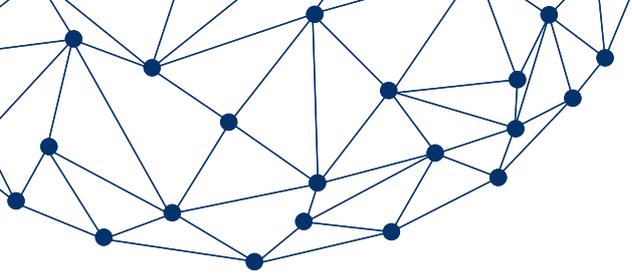
What can the data help answer?

- 1) Which oil, gas and mining transportation arrangements exist? How are the government and state-owned enterprises, involved in transportation of natural resources?
- 2) Does the government derive revenues from oil, gas and mineral transportation in the country? How are relevant taxes and payments calculated?
- 3) From which companies do the government and state-owned enterprises collect transportation revenues? How much oil, gas and minerals are transported within or through the country?
- 4) How important is the midstream extractive sector for the government and its revenues?

Transportation revenues

According to EITI Requirement 4.4

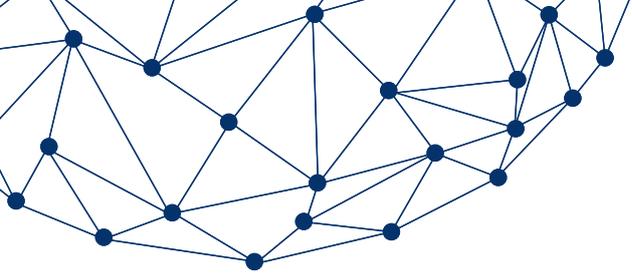




Overview of steps

Steps	Key considerations	Examples
<i>Steps 1 to 3: Applicability of transportation revenues</i>		
<p>Step 1: Identify the extractive commodities transport system(s) in the country and the actors involved</p>	<ul style="list-style-type: none"> • Which oil, gas and mineral commodities are transported by government entities and SOEs? • Who owns existing transportation systems? • Which government entities or SOEs collect payments from transportation? • What monitoring systems exist? 	<ul style="list-style-type: none"> • Chad/Cameroon • Nigeria
<p>Step 2: Identify the relevant transport-related taxes, tariffs and other relevant payments</p>	<ul style="list-style-type: none"> • What is the legal basis and method for calculating taxes, tariffs and other payments? Are any payments made in kind? • Do transportation revenues constitute fiscal payments to government, or earnings of state-owned transportation companies? • What are the existing monitoring and quality assurance mechanisms for tracking collected transportation revenues? 	<ul style="list-style-type: none"> • Cameroon
<p>Step 3: Assess the materiality of transportation revenues</p>	<ul style="list-style-type: none"> • Are transportation revenues significant? 	<ul style="list-style-type: none"> • Ukraine

Steps	Key considerations	Examples
<i>Steps 4 to 5: The MSG should complete these steps if transportation revenues are material</i>		
<p>Step 4: Analysis of legal and practical barriers to reporting and publishing data</p>	<ul style="list-style-type: none"> Are there any legal or practical barriers preventing disclosure? If yes, what actions can the MSG take to overcome them? 	<ul style="list-style-type: none"> Fictitious example of Transparenciana
<p>Step 5: Development of reporting procedures or improvements in systematic disclosures</p>	<ul style="list-style-type: none"> What information is required, recommended or encouraged? What information is publicly available through government and corporate systems? How can the MSG address disclosure gaps, including on the required level of disaggregation and data reliability? 	<ul style="list-style-type: none"> Colombia



Requirement 4.4

The objective of this requirement is to ensure transparency in government and SOE revenues from the transit of oil, gas and minerals as a basis for promoting greater accountability in extractive commodity transportation arrangements involving the state or SOEs.¹

Where revenues from the transportation of oil, gas and minerals are material, the government and state-owned enterprises (SOEs) are **expected** to disclose the revenues received. The published data **must** provide a level of detail and disaggregation commensurate with other payments and revenue streams ([Requirement 4.7](#)). The multi-stakeholder group is **encouraged** to agree a procedure to address data quality and assurance of information on transportation revenues, in accordance with [Requirement 4.9](#).

Implementing countries **could** disclose:

- 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.

¹ EITI (2021), *Validation Guide*, <https://eiti.org/document/2021-eiti-validation-guide#req44>.

How to implement Requirement 4.4

MSGs are recommended to adopt the following step-by-step approach for reporting on revenues from the transportation of oil, gas and minerals. Upon determining applicability or materiality, the MSG's discussions and decisions must be documented, even in cases where transportation revenues are deemed "not applicable". Documentation can be undertaken through MSG meeting minutes, scoping studies, EITI disclosures or other publicly accessible documents.

Steps 1 to 3: Applicability of transportation revenues



Step 1 **Identify the extractive commodities transport system(s) in the country and the actors involved**

In identifying which transportation systems might be relevant for the EITI process, the MSG should identify:

- Which oil, gas, and mineral commodities are transported by government entities and state-owned enterprises (SOEs);
- Who owns the transport system(s) in the country, as well as the role of the state, state-owned enterprises and private companies;
- Which government entities collect the payments from transportation and should disclose data;
- What monitoring systems are in place for transported commodities.

The MSG is encouraged to engage with the parties involved in the provision, management or regulation of the relevant transportation systems. This will help to provide an understanding of what information is publicly available.

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TERMINOLOGY

Transportation revenues Transportation *through* versus *within* a country

The EITI Standard does not distinguish between transportation revenues generated from commodities “in transit” (i.e. transported through the country) and commodities transported or stored domestically (i.e. where commodities enter and exit transportation infrastructure within a country’s borders). Both cases are therefore included in the scope of [EITI Requirement 4.4](#).

For any type of transportation revenues to be excluded from full disaggregation, countries must demonstrate that they are immaterial by disclosing the totals and percentage relative to total revenues.

CASE STUDY

Nigeria Equity interests in transportation joint ventures

Nigeria’s 2018 EITI Oil and Gas Report discloses revenues received from the use of pipelines. According to the report, the national oil company Nigerian National Petroleum Corporation (NNPC) holds an interest in several joint ventures (JVs) that operate pipelines, including Chevron Nigeria Limited (CNL), Nigerian Agip Oil Company (NAOC) and Shell Petroleum Development Company of Nigeria (SPDC).

As part of its equity share, NNPC is entitled to a share of pipeline fees that the JVs receive for transporting crude oil using the pipelines. Since the operating companies of each JV are responsible for determining the fees paid by customers for use of the pipeline infrastructure, these fees vary for each pipeline.

The government earns 1-2% of its extractive sector revenues via transportation fees. As noted in Nigeria’s 2019 Validation process, Nigeria EITI (NEITI) is exploring how disclosures can be improved by also including equity revenues from other companies where NNPC holds minority interests, such as Nigeria LNG Limited (NLNG), where dividends can be argued to represent transportation revenues.

Source: Nigeria EITI (2019), [2018 Nigeria Oil and Gas Report](#), pp. 16, 19, 61, 64-70, 75-91, 104.

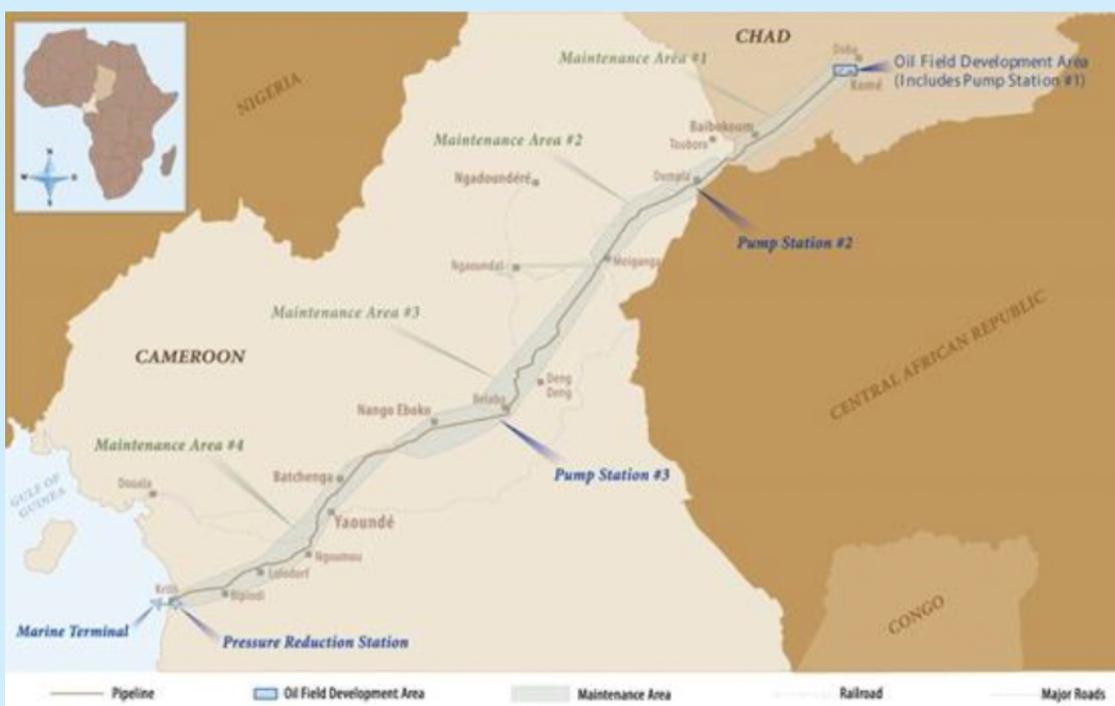
CASE STUDY

Chad and Cameroon

The Chad-Cameroon pipeline

In 1996, the governments of Chad and Cameroon signed a bilateral agreement to develop a joint pipeline to transport petroleum from oil fields in Kome, Chad to an export terminal in Kribi, Cameroon.

The pipeline is managed by two joint ventures: Chad Oil Transportation Company (TOTCO), and the Cameroon Oil Transportation Company (COTCO), and both governments are minority shareholders. Companies using the pipeline's services must pay a transit fee proportionate to the distance transported on either side of the border, and the Chadian and Cameroonian governments receive revenues as a result of their direct ownership interests. Transportation revenues received by TOTCO and COTCO are disclosed in their income from transportation services, disaggregated by each paying company.



Source: ITIE Tchad (2020), [Rapport 2018](#), p. 25.

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Step 2

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

The EITI Standard defines transportation revenues as revenues that accrue to the government directly, either through a government entity's commercial activities, or through the activities of an SOE. Taxes or fees collected from privately owned transportation companies are not considered transportation revenues.²

In identifying taxes, tariffs and other payments related to the transportation of extractive commodities, the MSG could consider:

- What is the legal basis for calculating taxes, tariffs and other payments?
- What methods are used to calculate these payments?
- Are transportation revenues collected by general government entities or SOEs as a fiscal payment, or the income of state-owned enterprises providing transportation services/ infrastructure?
- What monitoring and quality assurance mechanisms are in place for tracking transportation revenue collected?
- Are any transportation payments made in kind, i.e. in volumes of oil, gas or minerals?

² Fees or incomes of private transportation companies are not considered as forms of transportation revenues collected by government, but the MSG may still wish to disclose data on transportation revenues of these companies.

CASE STUDY

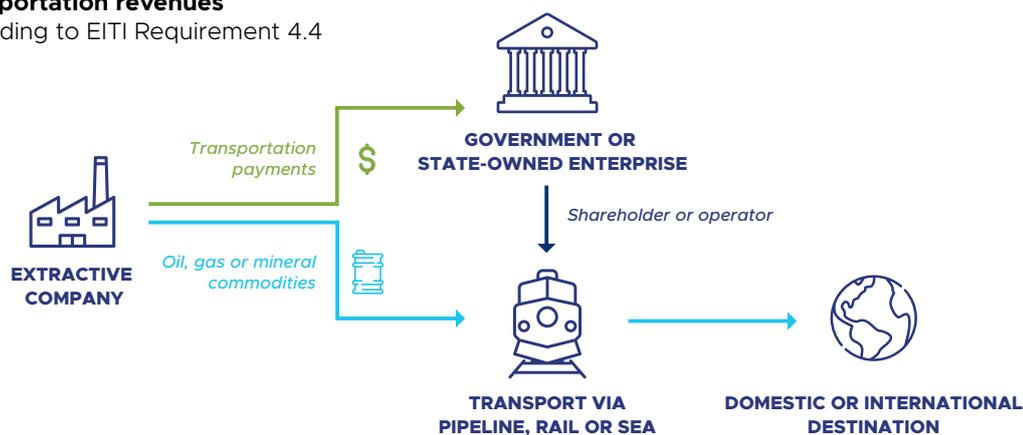
Malawi Concession fees

Malawi receives concession fees from Vale Logistics Limited and Central East African Railways Company Ltd for transportation of coal through its territory. These concession fees amount to 4% of gross turnover of the concessionaire's product transportation by rail.

However, these fees are not directly related to transportation volumes, and the government does not have any ownership in the railway. The collected revenues are thus not considered as transportation revenues. Rather, the fees can be considered regular taxations of a private company in the transportation sector. Government revenues from transportation companies owned by the state could still be an informative proxy for discussions on materiality, as exemplified under [Step 3](#).

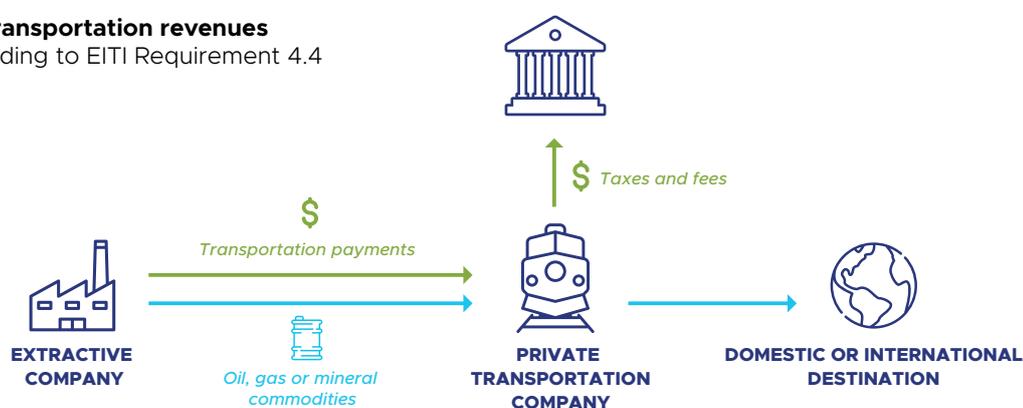
Transportation revenues

According to EITI Requirement 4.4



Not transportation revenues

According to EITI Requirement 4.4



Source: Malawi EITI (2021), MWEITI Final Report for the Financial Year 2017/2018, pp. 2-8.

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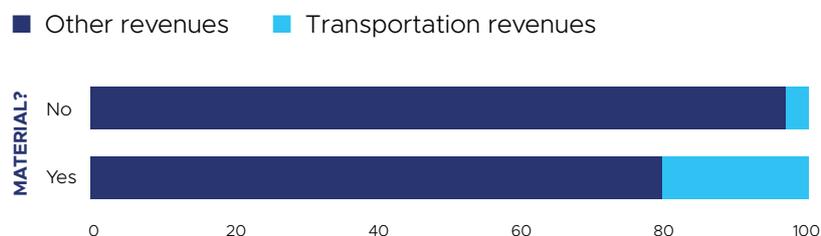
Step 3 Assess the materiality of the transportation revenues

Where the MSG has determined that there are transportation revenues, the MSG must demonstrate whether they constitute a significant revenue streams in the extractive sector.

The materiality of transportation revenues can be determined as part of an annual exercise outlined in [Requirement 4.1b](#). The MSG is encouraged to set a different materiality threshold for transportation revenues than other forms of revenue. The MSG should document its approach through MSG meeting minutes, scoping studies, EITI disclosures or through other publicly accessible documents.

As can be seen in the graph on this page, where transportation revenues are small compared to other revenues (top bar), transportation revenues can be demonstrated to not be material or significant. However, where transportation revenues are large compared to other revenues (bottom bar), transportation revenues should be deemed “material” or “significant”.

Are transportation revenues material?



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, in particular with SOEs.

While transportation revenues may be small compared to other revenue streams, reporting on such payments might be important for some stakeholders, as the effective transportation may be an essential feature of the extractive sector production system and energy access of countries.

CASE STUDY

Ukraine

Scoping transportation revenues for EITI reporting

In agreeing the scope of its 2019 EITI Report and determining which sectors to include for further disaggregation, EITI Ukraine used their national industry classifications. These correspond with international standards such as the International Standard Industrial Classification of All Economic Activities (ISIC) of the UN which is used by national statistics offices in all its member countries.³ ISIC code 49.50 refers to transportation via pipelines allowing Ukraine EITI to identify government revenues from gas transportation and transit companies in data provided by the tax authorities.

The 2019 EITI Report shows that the pipeline transportation sector accounted for almost 10% of government revenues from midstream and upstream extractive activities. The sector was therefore determined to be material, and subject to further disclosures. Alternatively, Ukraine could have identified SOEs involved in commodity transportation on behalf of the government and used their income from transportation services as an indication for how much the government earns from the sector. In Ukraine's case, SOEs' earnings from transportation services is what should be fully reported and disaggregated as part of Requirement 4.4.

Таблиця 8.1: Надходження податкових та інших платежів на користь держави від компаній видобувних галузей в 2019 р.

Код КВЕД-2010	Вид економічної діяльності	Надходження на користь держави у 2019 р.	
		тис. грн	% від сумарних платежів
V06.20	Добування природного газу	57 425 544,69	51,04%
V06.10	Добування сирої нафти	16 558 734,98	14,72%
V07.10	Добування залізних руд	11 257 285,07	10,00%
H49.50	Трубопровідний транспорт	11 217 774,02	9,97%
V05.10	Добування кам'яного вугілля	10 581 202,90	9,40%
V08.11	Добування декоративного та будівельного каменю, вапняку, гіпсу, крейди та глинистого сланцю	2 060 632,25	1,83%
V08.12	Добування піску, гравію, глини і каоліну	1 142 386,53	1,02%
V07.29	Добування руд інших кольорових металів	1 028 685,41	0,91%
V07.21	Добування уранових і торієвих руд	485 249,08	0,43%
V08.93	Добування солі	466 976,15	0,42%
V08.99	Добування інших корисних копалин та розроблення кар'єрів, н.в.і.у.	100 480,03	0,09%
V08.92	Добування торфу	76 080,90	0,07%
V08.91	Добування мінеральної сировини для хімічної промисловості та виробництва мінеральних добрив	5 884,09	0,01%
Всього		112 507 026,10	100%

Source: Ukraine EITI (2021), National Report of Ukraine 2019, p. 315.

3 United Nations Statistics Division (n.d.), *International Standard Industrial Classification of All Economic Activities (ISIC) Revision 4*, <https://unstats.un.org/unsd/classifications/Econ/isic>.

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Steps 4 to 5: The MSG should complete these steps if transportation revenues are material



Step 4

Analysis of legal and practicable barriers to reporting and publishing data

Where the MSG has determined that transportation revenues exist, are applicable and are material, fully detailed disclosure of transportation revenues is **expected**. Where there are significant legal or practical barriers to disclosure, the MSG must consider the issue, document its approach, clarify what these barriers are and develop a plan indicating how to overcome them.

Common obstacles include confidentiality clauses in government and company contracts, lack of disclosure platforms, absence in monitoring systems or conflicting departmental responsibilities.

CASE STUDY

Fictitious example of Transparenciana Legal or contractual limitations to disclosure

In Transparenciana, 10% of government extractive revenues are derived from transportation services through a state monopoly dubbed the “National Gas Transportation Company” (NGTC). The company is responsible for operating and maintaining gas pipelines in the country, and enters into agreements with private companies based domestically and in other countries. The NGTC provides transportation and transit services via its gas pipeline system, and charges a fee based on volumes and distance transported.

NGTC publicly discloses data on its earnings from transportation services, e.g. through annual publication of its audited financial statements. It also discloses the applicable terms and tariffs used for transportation. However, NGTC faces significant constraints in publishing detailed, disaggregated data on its earnings from each of its customers.

Transparenciana has developed obligatory model contracts for transportation services, which NGTC enters with each of its customers. These model contracts include confidentiality clauses that hinder disaggregation of transportation revenues, which stipulate that disclosure of any data by any party to a third party is prohibited, unless conflicting with other legislation. These confidentiality clauses are applicable for a further five years following the contracts’ termination date.

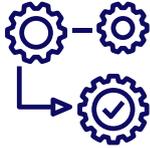
In this case, the Transparenciana MSG would not be able to provide disaggregated data due to the legal barrier to disclosure. However, since fully disaggregated disclosures are **expected** in accordance with EITI Requirement 4.4, the MSG should agree activities to include in its work plan that cover the following:

- Identify the precise law that mandates the use of the model contracts;
- Identify the passage contained within the contract that prohibits disclosure of data, indicate how or why disclosure is prevented and confirm any alternative interpretations of the provisions;
- Present these assessments and findings through EITI reporting, and identify short or long-term ways to overcome barriers to public disclosure.

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Step 5

Development of reporting procedures or improvements in systematic disclosures

Based on the assessments above, the MSG is advised to:

1. Improve on existing disclosures of entities involved in transportation of commodities on behalf of the government;
2. Develop a reporting procedure for government entities or SOEs as an interim solution.

The precise improvements in existing disclosures or reporting templates are likely to vary from country to country depending on the systems in place.

In accordance with Requirement 4.4, the MSG **must** ensure that disclosures of transportation revenues are disaggregated by paying company and revenue stream, reported by the recipient entities. It is **recommended** that the MSG ensure that the government discloses a description of the transportation arrangements, tariff rates and the volume of the transported commodities.

Where feasible, the MSG is **encouraged** to assess the reliability of data on payments and revenues associated with the transport of oil, gas and minerals.

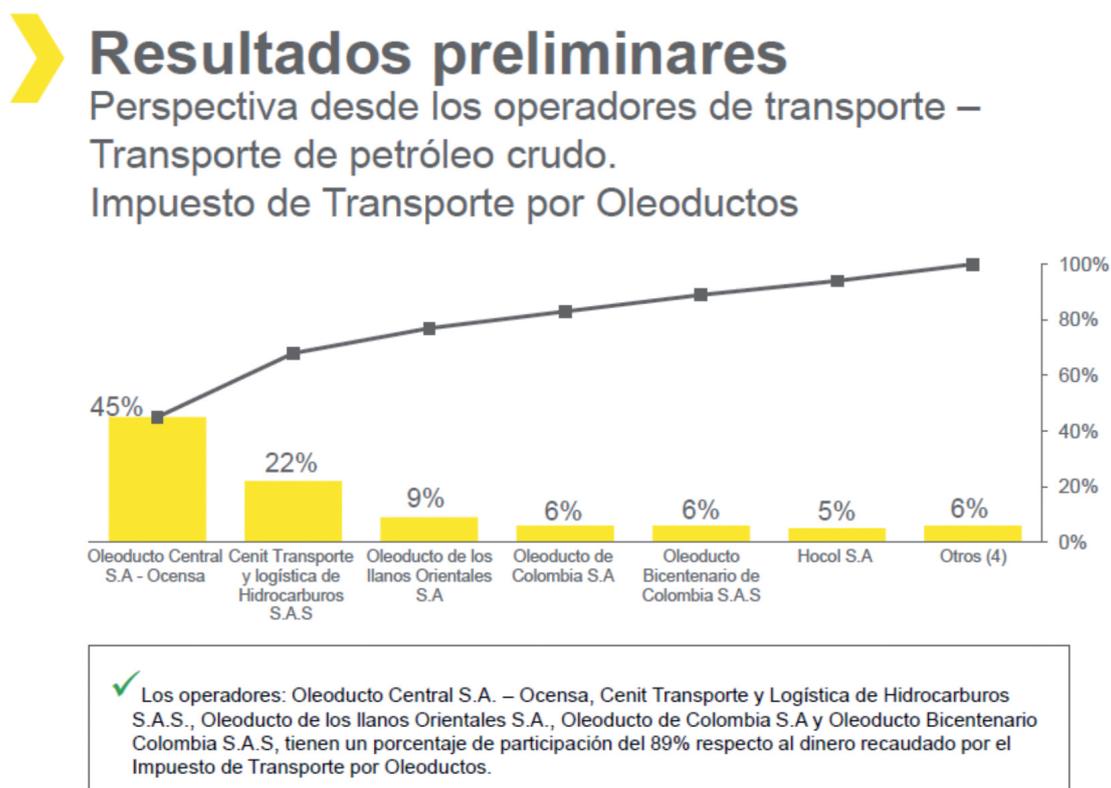
CASE STUDY

Colombia

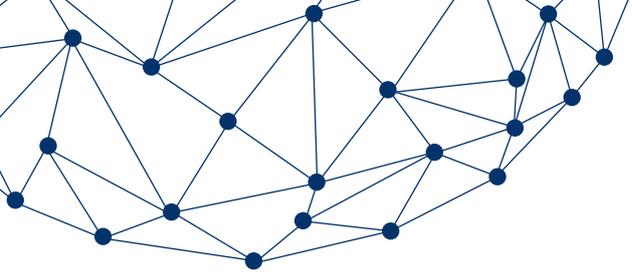
Mineral and petroleum transportation revenues

The Colombian government collects taxes and fees related to the transportation of minerals, oil and gas. In 2017, the Colombian MSG commissioned a supplementary report on minerals transportation in Colombia. It included information on the legal framework regulating oil and gas pipelines, coal transportation and port fees. It describes the methodology for calculating fees and the legal and practical barriers for disclosure.

Data from transport operators – collected from national ports, the Ministry of Mines and Energy and other government agencies such as the Agencia Nacional de Infraestructura (ANI) – were used to calculate the transport taxes and port fees paid by extractive companies. The report identified that more than USD 150 million was collected from the transportation of oil, gas and coal, therefore noting that these revenues were material. Disclosures of these payments were disaggregated commensurate with other payments and revenues streams. As these payments and revenues were distributed among 172 municipalities, the MSG chose not to undertake a reconciliation exercise.



Sources: Colombia EITI (2017), Estudio: Sector de transporte de Hidrocarburos y Minerales en Colombia, p. 79.



Moving towards systematic disclosure of transportation revenues

Transportation revenues in Kazakhstan

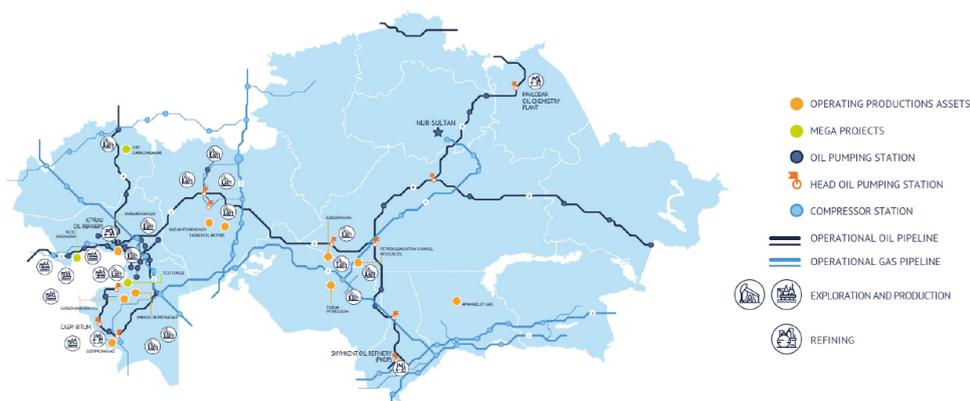
Kazakhstan is strategically located at the crossroads of several regional pipeline networks. Once constructed, transport projects are not labour intensive and can contribute significant fiscal revenues to the government budget, if maintenance costs are not excessively delayed. Disclosures by Kazakhstan EITI have helped to highlight the extractive transportation subsector's strategic importance. In 2019, the subsector contributed approximately USD 4 billion or 12.4% of total reported upstream and midstream revenues in Kazakhstan.⁴

The state participates in transportation of extractive commodities via oil and gas pipelines that are owned or operated by SOEs, and ships commodities via sea. Additionally, the government collects revenues from railway transportation through the SOE "NC Kazakhstan Temir Zholy" JSC. According to its annual report, the government-owned "NC KazMunayGas" JSC (KMG) accounted for 57% of oil volumes transported and 79% of gas transportation in Kazakhstan in 2019, largely through its subsidiaries KazTransOil JSC and KazTransGaz JSC.⁵ Transported oil and gas of the entire group in 2019 amounted to more than 67 million tonnes of oil and 100 million Sm³ oil equivalents of gas. The state also collects revenues from railway transportation through the state-owned company "NC Kazakhstan Temir Zholy" JSC.

4 Kazakhstan EITI (2020), *Kazakhstan 2019 EITI Report*, pp. 89-90, <https://eiti.org/document/kazakhstan-2019-eiti-report>.

5 NC KazMunayGas JSC (2020), *Annual Report 2019*, <http://ir.kmg.kz/>, p. 12.

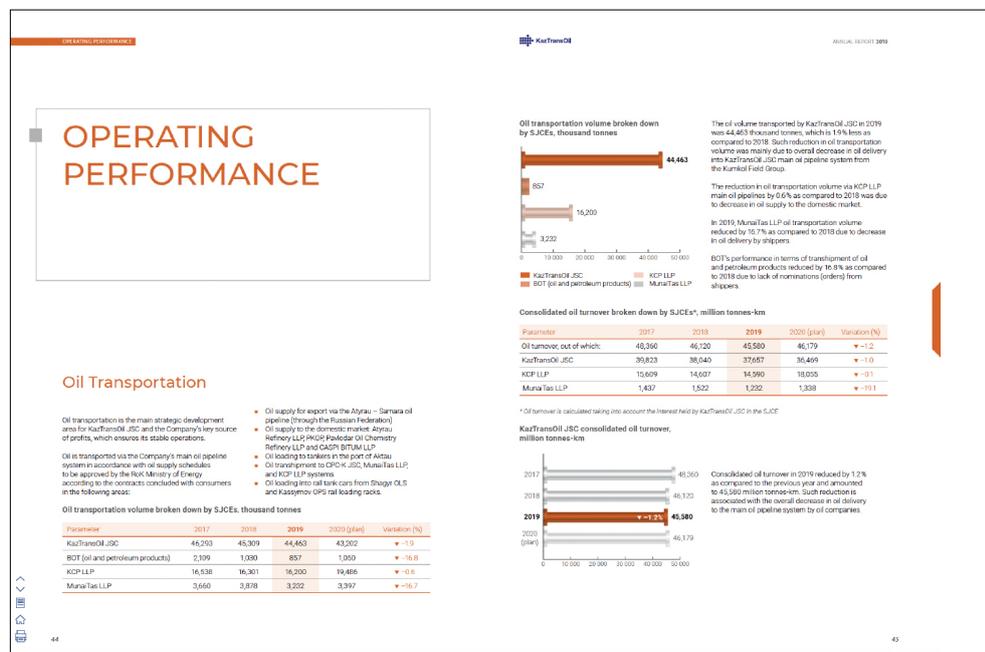
Map of KazMunayGas JSC's operations



Source: NC KazMunayGas JSC (2020), [Annual Report 2019](#), pp. 4-5.

Kazakhstan's second Validation,⁶ reviewing data for 2017, identified that the country systematically discloses aggregate transportation revenue data for the petroleum sector through annual reports of KazMunayGas' subsidiaries.⁷ Kazakhstan has continued to disclose transportation revenues data, including for 2018 and 2019.

Systematic disclosure of aggregate transportation data



Source: KazTransOil (2020), [Annual Report JSC "KazTransOil" for 2019](#), pp. 44-45.

6 EITI (2020), "Kazakhstan Validation 2019", <https://eiti.org/document/kazakhstan-validation-2019>.

7 See KazTransOil's annual reports: https://kaztransoil.kz/en/to_shareholders_and_investors/information_disclosure/annual_reports/ and KazTransGaz's annual reports: <https://www.kaztransgas.kz/index.php/en/investors/reports>.

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However, detailed and comprehensive systematic disclosure remains a challenge. EITI reporting covers gaps concerning tariff rates and each SOEs' earnings from transportation services. It also provides data on which companies are significant customers of the transportation services, albeit without data on how much was paid by each company. Kazakhstan EITI is still working towards clarifying which railway revenues may be considered “transportation revenues” and what would be the appropriate level of disclosure of this data.

EITI reporting is currently exploring how Kazakhstan can improve on more disaggregated transportation revenue data for each company in the oil, gas and mining sectors. Disclosures are still limited to total payments from transportation SOEs to the budget, not income from transportation services disaggregated by paying company. So far, Kazakhstan EITI has reported the companies paying for the transportation services, but the disclosures do not include how much was paid by each company.

There are also ongoing efforts to disaggregate data for railway transportation. Kazakhstan's 2019 EITI Report⁸ includes information regarding tariffs for railway transportation – including the volume of transportation, freight/cargo turnover, and revenues, for each commodity – and information regarding the main railway routes per commodity.

EITI reporting questioned whether the railway company KTZ is an extractive company though did not include it in the reconciliation process. Moreover, the company does not appear to pay specific transportation taxes or fees to the government. This means that the MSG would still need to explore whether the KZT is considered an SOE, and if it is, ensure KZT reports its earnings from transportation services in a disaggregated manner.

8 Kazakhstan EITI (2020), *Kazakhstan 2019 EITI Report*, pp. 100 and 164, <https://eiti.org/document/kazakhstan-2019-eiti-report>.



Further resources

- EITI International Secretariat (2020), “Connecting the dots with the East Africa Crude Oil Pipeline”,
<https://eiti.org/blog/connecting-dots-with-east-africa-crude-oil-pipeline>.
- Norsk Petroleum, “The oil and gas pipeline system”,
<https://www.norskpetroleum.no/en/production-and-exports/the-oil-and-gas-pipeline-system/>.
- DiXi Group, “Online Energy Sector Map of Ukraine”,
<https://map.ua-energy.org/en>.



Extractive Industries
Transparency Initiative

Rådhusgata 26
0151 Oslo
Norway

+47 222 00 800
secretariat@eiti.org
eiti.org