Press Release

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Some trading companies are debunking the myth that public disclosure harms competitiveness, amidst persistent opacity in the extractive sector

According to two Swiss-based independent research organisations, a few trading companies active in the extractive sector are going against the flow by disclosing financial data that others in the industry still claim needs to be kept confidential. This is one finding from the 2023 edition of the *Extractive Commodity Trading Report*, which assesses ESG policies and practices of a sample of companies trading oil, gas, minerals or metals. The Report finds that while there has been no marked shift towards more responsible practices since the previous assessment in 2021, most companies show some improvement. Are companies ready to respond to the likely increased regulation of this traditionally opaque sector?

The Report, produced by the World Resources Forum (WRF) and the Responsible Mining Foundation (RMF), uses public data (from the public domain or submitted by the companies) to assess 25 companies' public disclosure and due diligence on corporate governance and risks of human rights abuses, illicit financial flows and environmental damage in their supply chains.

The Extractive Commodity Trading Report 2023 reveals that while most companies choose not to publicly disclose financial information such as their annual turnover, the taxes they pay, or their purchases from governments or state-owned enterprises, on each of these issues a few companies (private as well as publicly listed) show strong and voluntary disclosure. Dr. Mathias Schluep, Managing Director of WRF said: *"This report shows that trading companies can follow the examples of their more transparent peers to meet society expectations on public disclosure without compromising their own competitiveness."*

According to the Report, most companies' due diligence systems are very limited, often stopping at the initial step of setting expectations for their suppliers. Few systems extend to the critical stages of assessing supplier compliance, engaging with suppliers, and taking action to address any non-compliance. Without these elements, the due diligence systems will never contribute to the prevention of critical supply chain risks. And there is little sign that companies are making efforts to review and improve the effectiveness of their due diligence systems. For example, about two-thirds of the companies show no evidence of tracking their performance on managing human rights risks in their supply chain.

The report's findings are set in the context of ongoing commodity flow disruption and price volatility linked to recovering economies and sanctions imposed by some countries in response to the war in Ukraine. Companies in the commodity trading sector are expected to come under greater scrutiny as banks and regulators demand more transparency and more evidence of responsible practices.

Alongside the detailed assessment of companies' ESG measures, the Report shows that over the last five years, more than half of the assessed companies (or employees of these companies) are known to have faced investigations or court cases related to illegal practices such as bribery, price manipulation, fraudulent transactions, money laundering and tax evasion. Incidents are reported to have involved over a dozen countries including all regions of the world. Companies with relatively sophisticated compliance systems are among those involved in the reported incidents. While some of these practices evidently pre-date companies' current due diligence systems, they can cast doubts on the effectiveness of companies' policies and practices, while doing lasting damage to the reputation of the whole industry.

The Report formulates a set of immediate opportunities for companies to improve their ESG policies and practices. These 'easy win' opportunities include adopting and adapting the models provided by peers, embedding supplier expectations in contracts, documenting and publicly reporting what is already being tracked, and considering where confidentiality may be unnecessary. The Report also highlights examples of good practice on a range of issues including for example a guidebook and a financial incentive scheme to encourage supplier compliance with responsible sourcing requirements.

Finally, the assessment finds clear evidence that legislation drives better practice. Companies subject to disclosure requirements – from governments, lenders, or others – on issues such as human rights, lobbying, taxes and payments, tend to perform better than their peers. Unfortunately, there is no evidence that they apply the same good practice in jurisdictions where they are not required to disclose. Without strong external stimuli, the pace of improvement on these issues will remain very slow.

Download the Report

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Companies assessed in the report:
BP trading & shipping, CCI, Chevron Supply and Trading, CITIC Metal, ConocoPhillips, Eni Trade & Biofuels, ExxonMobil, Gerald Group, Glencore, Gunvor, LITASCO, Mercuria, Minmetals International, Mitsubishi Corporation, Mitsui, MRI Trading, Noble Resources, Phibro, RGL Group, Shell International Trading and Shipping, TotalEnergies Trading & Shipping, Trafigura, UNIPEC, Vitol, Wogen