Sustainability Reporting for CSR Disclosures: A Case Study in Oil and Gas Industry

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Abstract

Sustainability Reporting has been used quite extensively in communicating company accountability towards its broad-based stakeholders. The report, widely known as the triple bottom line (TBL) report, discloses three performance indicators of any company: economic, social and environmental performance. Social and environmental performances are generally understood as Corporate Social Responsibility (CSR).

This article will investigate how Sustainability Reporting principles developed by the Global Reporting Initiatives (GRI) has been implemented by the oil and gas industry in order to stimulate and enhance CSR practices and disclosures. GRI-based sustainability reporting is currently the most recognized reporting principles implemented by various industries worldwide.

Content analysis on selected Sustainability Reporting of selected international oil companies will be conducted to identify the extent to which their CSR practices and disclosures has been in line with GRI principles. Furthermore, this research will explore whether CSR reporting applied by international oil multinationals could be implemented in developing countries such as Indonesia.

Finally, it is expected that this exploratory research will be able to introduce and develop the Indonesian principles on CSR disclosures using GRI-based Sustainability Reporting published by the oil and gas companies operating in Indonesia.

Keywords: *Corporate Social Responsibility, Disclosures, Sustainability Reporting, Oil and Gas Companies.*

Sustainability Reporting.

This section will discuss briefly the theory (ies) behind Sustainability Reporting. The principles, content and format of Sustainability Reporting developed by the Global Reporting Initiatives (GRI), which is the main international reference for such reporting is also explained. Then, the GRI-based Sector Supplement is introduced in order for the oil and gas industry being able to use it as benchmark to develop its own and unique Sustainability Reporting.

Theory about Sustainability Reporting

During the past 40 years, pressures from a variety of sources have come to bear on the private sector to accept responsibility for impacts on society from business activities. Companies are being urged to become accountable to a wider audience than shareholder and creditor groups. Friedman's (1962) doctrine that the only social responsibility of business is to maximize profits is not universally accepted. Studies have documented a growing awareness on the part of business executives that business has an obligation to help society, even if it means less profit.

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There appears to be a growing recognition within the business community of the importance key stakeholders attach to socially, environmentally and ethically responsible behavior by corporations (Zadek et al., 1997). As businesses increasingly recognizes the broad duties of accountability implied by their stakeholders' (non-financial) expectations the role of corporate social reporting takes on increasing importance as a mechanism through which such duties of accountability may be discharged (Gray et al., 1996). This significant role played by sustainability reporting has attracted public interest in studying sustainable development in general and corporate social reporting practices, with many empirical research studies analyzing the content of corporate sustainability reports for disclosures in respect of one or more categories of social, environmental and/or ethical matters.

Sustainability Reporting, in professional and academic literatures, is understood as a vehicle to communicate comprehensively the triple bottom line of a company: economic, social and environmental performance. John Elkington (1997). for example, stated that

"*At its narrowest, the term 'triple-bottom-line' is used as a framework for measuring and reporting corporate performance against economic, social and environmental parameters. At its broadest, the term is used to capture the whole set of values, issues and processes that companies must address in order to minimise any harm resulting from their activities and to create economic, social and environmental value…The three lines represent society, the economy and the environment. Society depends on the economy – and the economy depends on the global ecosystem, whose health represents the ultimate bottom line*".

Then Gray et.al., (1996) identify characteristics of sustainability reporting as follows: (see table 1).

Subject

Sustainability reporting tends to focus on the areas of employees, 'ethical issues' (emphasizing community and consumers) and the natural environment. However, the reporting could cover other such matters as ethics, standards, and characteristics of organizational investment.

Audience

Some examples of sustainability reporting are closely defined for a specific target audience (for example employee reports, information for collective bargaining, local environmental information, information for use in schools or internal documents for management use). Certainly, as much of the regulated disclosure appears in Annual Reports it must be assumed that sustainability reporting is intended primarily for shareholders.

Content

Sustainability reporting might vary from conventional accounting and reporting. It consists of narrative and quantitative disclosures of various corporate information. In order to ensure a balanced and reasonable presentation of the organizations' performance, a determination must be made about what content the report should cover by considering both the organizations' purpose and experience, and the reasonable expectations and interests of the organizations' stakeholders.

Motivation of reporting

The motivation of an organization to produce sustainability report consists of internal and external motivations. Internal motivations such as ethics, organizations' commitment, accountability and code of practices while external motivations such as peer pressure, market pressure and legal obligation. Some motives may dominate, but research shows that sustainability reporting is the result of more than one motivation.

Reliability

Reliability concern with the extent of the users of the report may rely on the information disclosed and to know whether the report present a complete, fair, balanced and reliable of the issues or organization. Reliability deals with the credibility of the preparer of the report and assurance process.

Since sustainability report could take various forms and objectives, several reporting standards exist as guidelines for reporting. Those standards are as follows:

- Global Reporting Initiative Sustainability Reporting Guidelines developed by Global Reporting Initiative (GRI) in 2000, 2002 and 2006 (G3);
- Organization for Economic Cooperation and Development guidelines for multinational enterprises developed by Organization for Economic Cooperation and Development (OECD);
- Social Accountability 8000 developed by Social Accountability International, an independent organization consists of business, NGOs, trade unions and others;
- AA 1000 for auditing and assurance process developed by AccountAbility, an international membership organization;
- Environmental management (ISO 14001, EMAS);
- Global compact and United Nation Norms developed by the United Nations;
- Sarbanes-Oxley Act developed by United States legislation from 2002;
- Greenhouse Gas Protocol developed by World Business Council for Sustainable Development (WBCSD) and World Resources Institute;
- Oil and Gas Industry Guidance on Voluntary Sustainability Reporting developed by American Petroleum Institute (API) and the International Petroleum Industry Environmental Conservation Association (IPIECA);

Among other standards, the GRI G3 sustainability reporting guidelines and API/IPIECA Oil and Gas Industry Guidance on Voluntary Sustainability Reporting are the most widely accepted reporting standards for oil and gas industries. It integrates or refers to most initiatives and might be the generally accepted, broadly adopted, worldwide framework for preparing and communicating information about organizational sustainability performance. What next is the explanation about the GRI-based sustainability reporting and API/IPIECA Oil and Gas Industry Guidance on Voluntary Sustainability Reporting.

GRI-based Sustainability Reporting

The “Global Reporting Initiative” is a large multi-stakeholder network of thousands of experts, in dozens of countries worldwide, who participate in GRI’s working groups and governance bodies, use the GRI Guidelines to report, access information in GRI-based reports, or contribute to develop the Reporting Framework in other ways – both formally and informally.

Sustainability reports based on the GRI Reporting Framework disclose outcomes and results that occurred within the reporting period in the context of the organizations’ commitments, strategy, and management approach. Reports can be used for the following purposes, among others:

- Benchmarking and assessing sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives;
- Demonstrating how the organization influences and is influenced by expectations about sustainable development; and
- Comparing performance within an organization and between different organizations over time.

The GRI Reporting Framework is intended to serve as a generally accepted framework for reporting on organizations’ economic, environmental, and social performances. It takes into account the practical considerations faced by a diverse range of organizations – from small enterprises to those with extensive and geographically dispersed operations. The GRI Reporting Framework contains general and sector-specific content that has been agreed by a wide range of stakeholders around the world to be generally applicable for reporting an organizations' sustainability performance.

As illustrated in Figure 1, the Sustainability Reporting Guidelines (the Guidelines) consist of Principles for defining report content and ensuring the quality of reported information. It also includes Standard Disclosures made up of Performance Indicators and other disclosure items, as well as guidance on specific technical topics in reporting in form of indicator protocols, sector supplements, and technical protocols.

The principles for defining report content consist of materiality, stakeholder inclusiveness, sustainability context, and completeness. This is followed by the principles for ensuring quality of reported information, consists of balance, comparability, accuracy, timeliness, reliability, and clarity. Those principles are defined as follows:

- Materiality

  The information in a report should cover topics and indicators that reflect the organizations' significant economic, environmental, and social impacts or that would substantively influence the assessments and decisions of stakeholders.

- Stakeholder inclusiveness

  The reporting organization should identify its stakeholders and explain in the report how it has responded to their reasonable expectations and interests.

- Sustainability Context

  The report should present the organizations' performance in the wider context of sustainability.

- Completeness

  Coverage of the material topics, indicators and definition of the report boundary should be sufficient to reflect significant economic, environmental, and social impacts and to enable stakeholders to assess the reporting organizations' performance in the reporting period.

- Balance

  The report should reflect positive and negative aspects of the organizations' performance to enable a reasoned assessment of overall performance.

- Comparability

  Issues and information should be selected, compiled, and reported consistently. Reported information should be presented in a manner that enables stakeholders to analyse changes in the organizations' performance over time, and could support analysis relative to other organizations.

- Accuracy

  The reported information should be sufficiently accurate and detailed for stakeholders to assess the reporting organizations' performance.

- Timeliness

  Reporting occurs on a regular schedule and information is available in time for stakeholders to make informed decisions.

- Reliability

Information and processes used in the preparation of a report should be gathered, recorded, compiled, analysed, and disclosed in a way that could be subject to examination and that establishes the quality and materiality of the information.

- Clarity

  Information should be made available in a manner that is understandable and accessible to stakeholders using the report.

The Guidelines defines three different types of disclosures for the base content that should appear in a sustainability report as follow:

- Strategy and Profile

  Disclosures that set the overall context for understanding organizational performance such as its strategy, profile, and governance. Its consist of strategy and analysis; organizational profile; reports parameters; governance, commitment and engagement.

- Management Approach

  Disclosures that cover how an organization addresses a given set of topics in order to provide context for understanding performance in a specific area.

- Performance Indicators

  Indicators that elicit comparable information on the economic, environmental, and social performance of the organization. Social indicators are further categorised by Labor, Human Rights, Society and Product Responsibility. Sustainability performance indicators are classified into Core and Additional indicators based on materiality.

The economic performance indicators are concerned of the organization's impacts on the economic conditions of its stakeholders and on economic systems at local, national, and global levels. The indicators are designed to illustrate (1) flow of capital among different stakeholders and (2) main economic impacts of the organization throughout the society.

The environmental performance indicators are concerned about the affected living and non-living natural systems such as ecosystems, land, air and water due to the organization's activities.

The Social Performance Indicators are divided into four sub categories which are: (1) Labor practices and decent work performance indicators based on internationally recognized universal standards issued by organizations such as United Nations, ILO declaration and Vienna declaration (2) Human rights performance indicators, which are concerned with the extent of human rights being considered in investment and supplier/contractor selection practices including employee and security forces training human rights, non-discrimination, and freedom of association, child labor, indigenous rights, as well as forced and compulsory labor, (3) Society performance which are concerned on the affects that organizations have on communities where they operate and require how to manage and mediate the risks that may arise from interactions with other social institutions and (4) Product responsibility performance indicators which are concerned on organization's products and services which directly affect customers' health and safety, information and labeling, marketing as well as privacy.

Since 2000, GRI has developed the sustainability reporting framework used as guidelines to report on economic, environmental and social performance of any organization as routine and as comparable as financial reporting. The framework has been continuously improved. And in 2006 the third generation (G3) of GRI sustainability framework was finally launched in Amsterdam in 2006.

Currently, an Indonesia-specific guideline is being prepared by the National Center for Sustainability Reporting (NCSR), an Indonesian multi-stakeholders organization, based on GRI sustainability reporting guidelines version

3.0 added with local economic, social and environmental contents. The guideline will be available by the end of 2010.

GRI-based Sector Supplement for Industries

GRI not only provides general framework of Sustainability Reporting for companies across industries, but also supports various industry/sector to have their own Reporting Supplement in order for the industry/sector being able to address properly the unique sustainability issues of the industry. GRI has so far developed and compiled Sector Supplement for the following industries: Airports, Apparel & Footwear, Automotive, Construction & Real Estate, Electric Utilities, Financial Services, Food Processing, Logistics & Transportation, Media, Mining & Metals, NGOs, Oil & Gas (draft), Public Agency, Telecommunications.

Sector Supplement for Oil and Gas Industry, for example, covers the reporting in the areas of exploration, feasibility, construction, oil and gas processing (including fabrication and recycling), impacts assessment, and closure as well as greenhouse gas emissions, alternative/renewable energy investments, emergency preparedness and response, programs to assist developing countries to manage and invest fossil fuel revenues, implementation of the Extractive Industries Transparency Initiative (EITI) principles.

In the Supplement, narrative (qualitative) description is to be applied for such aspect as:

- Business viability through disclosure on volume of proven oil and gas reserves;
- Countries of operation that are either candidate to or compliant with the Extractive Industries Transparency Initiative (EITI) including full disclosure of the implementation process of the initiative and main actions when operating;
- Impacts assessment on biodiversity and operating sites in which biodiversity risk has been assessed and monitored;
- Emissions, effluents and waste including volume of hydrocarbon flared and vented, amount of drill mud and cuttings, and Benzene and Sulfur content in diesel and gasoline;
- Social impact assessment to indigenous Peoples' communities which adjacent to or influenced by operations taking place, and number and percentage of operations or sites where there are formal agreements with Indigenous Peoples' communities;
- Number and description of significant disputes relating to land use and use of marine areas, customary rights of local communities and indigenous peoples and cultural heritage;
- Health impact assessment to facilities for employees and communities;
- Operation sites where resettlements took place, the number of households resettled in each in the affected locality, and how their livelihoods were affected in the process ;
- Operation sites that have been decommissioned and are in the process of being decommissioned;
- Asset integrity and safety processes to facilities employees and communities;
- Volume of biofuels produced, purchased and sold including amount invested or planned to invest in biofuels research.

Since the oil and gas industry is playing a very dominant role in international economic development, the industry needs to address its sector supplement reporting to increase transparency and accountability of the sector towards its stakeholders. The Supplement is available in www.globalreporting.org.

API/IPIECA Oil and Gas Industry Guidance on Voluntary Sustainability Reporting

API and IPIECA are working together to create a common framework for sustainability or non-financial reporting that will enable interested audiences and company stakeholders to better understand performance of oil and gas companies that operate anywhere in the world on a national, regional or international level. The development of the Guidance is part of a larger initiative aimed at helping companies and industry associations improve upon the quality, scope, completeness and consistency of reporting on issues commonly included under terms such as sustainable development, social responsibility or corporate citizenship.

The purpose of the Guidance is to assist current and future oil and gas companies in improving the quality and consistency of voluntary reporting on their environmental, health and safety, social and economic performance. The Guidance is designed to be a voluntary reference tool to help companies interested in developing or enhancing their reporting on these issues.

The Guidance consists of General Reporting Principles and General Reporting Content. General Reporting Principles are the broad concepts that form the basis upon which sustainability or non-financial reporting can develop and improve over time. It consists of Relevance, Transparency, Consistency, Completeness and Accuracy.

General Reporting Content provide a typical formats and presentation structures of sustainability or nonfinancial reports which consist of an executive summary, company profile, reporting boundaries, company policies, major program initiatives, and performance indicators including additional topics such as report verification, the integration of management systems into operations, operational security, fines and penalties, and major media events.

Performance indicators consist of financial and non-financial indicator of the reporting company including:

- Environmental Performance Indicators including Spills and Discharges, Wastes and Residual Materials, Emissions, Resource Use and Other Environmental Indicators;
- Health & Safety Performance Indicators including Health & Safety Management Systems, Employee Participation, Workforce Health, Occupational Injury and Illness Rates, and Product-related Health Risks;
- Social Responsibility Performance Indicators including Human Rights, Business Ethics, Employment Practices, and Community & Society;
- Economic Performance Indicators describe key interactions with Governments, Shareholders, Employees, Suppliers & Contractors, and Lenders & Holders of Debt Securities.

Sustainability Reporting in Indonesia

Traditionally, Indonesian corporations have done a variety of social and environmental activities for the benefit of the society. Those activities include environment preservations, disaster relief, partnerships with small and medium enterprises, building public facilities, scholarship programs, and donation to schools. Moreover, the State Minister of State-owned Enterprises obliged all state-owned enterprises (BUMN) to allocate some amount of their profit (government share) to partnership and environment development programs *(Program Kemitraan dan Bina Lingkungan-PKBL)* based on the Minister Decree No. KEP-236/MBU/2003 dated June 13, 2003 regarding State-owned Company Partnership Program with Small Enterprises and Environment Development (Effendi, 2008).

Sihotang and Margareth (2007) have conducted a content analysis research on the annual reporting of top 30 Indonesian companies listed in the Indonesia Stock Exchange. They observed an increasing trend of economic, social and environmental disclosures during 2003-2005 (see table 2). It is very obvious that economic performance indicators have dominated almost half of the total disclosures. As far as the social performance indicators are concerned, human rights performance indicators show the lowest percentage of all performance indicators. One could argue that there is a lack of company's awareness towards human rights issue in sustainability reporting.

Additionally, it is also worth noting that both Labor and Society sub-indicator share a relatively similar percentage of disclosure, whilst both Human Rights and Product Responsibility seem to have a considerably low percentage of disclosure, which is less than 3%.

Then, Figure 2 clearly indicated that during 2003 – 2005 period, there is an increasing disclosures for all performance indicators. Disclosures on economic performance were dominated the overall disclosure with twice fold in terms of frequency. The domination is then followed by Labor and Society Performance Indicator.

Companies used to disclose 'limited' information of their social and environmental activities in their annual reports and PKBL report (for state-owned enterprises). Unfortunately, the information seems not sufficient to satisfy all stakeholder expectations. To bridge the expectation gap, in May 2006 PT Astra International, Tbk, a large holding company with numerous lines of businesses, launched its first stand-alone corporate sustainability report covering the period of 2005 on their annual general shareholders meeting. The report was intended to substitute Astra Green Company Annual Report which is published periodically.

After Astra's initiative, sustainability reporting practices shortly attained significant attention from investors, fund managers, professional organizations, market regulators as well as academicians. The increasing market attention encouraged four listed companies to launch their sustainability report in the end of the year. Those companies were: PT Aneka Tambang (persero), Tbk, PT Tambang Batubara Bukit Asam (persero), Tbk, PT International Nickel Indonesia, Tbk, and PT Pembangunan Jaya Ancol, Tbk.

In 2007, more corporate sustainability reports were published by listed companies such as PT Timah (persero), Tbk, PT Indah Kiat Pulp & Paper, Tbk, PT Pabrik Kertas Tjiwi Kimia, Tbk, PT Unilever Indonesia, Tbk, PT Telekomunikasi Indonesia (persero), Tbk, and PT Holcim Indonesia, Tbk. The list of sustainability reporting companies in Indonesia by the end of 2008 is shown in table 3.

Interestingly, sustainability reporting also gained substantial attention from private-non listed companies in Indonesia. Three private companies published their sustainability report regularly, first PT Kaltim Prima Coal, a major coal producer, issued its sustainability report periodically since 2005. Second, PT Freeport Indonesia, a large copper and gold producer, issued its sustainability periodically since 2005. And lastly, PT Riau Andalan Pulp and Paper, a large pulp and paper manufacturer, joined up its sustainability report with Asia Pacific Resources International Holdings Limited, its holding company, alongside with other subsidiaries. The report was issued periodically every two years since 2002.

Indonesian small and medium enterprises (SMEs) and Not for Profit-Organisations (NGOs) also demonstrate its commitment for greater transparency and accountability by publishing its sustainability report periodically. In the end 2008, three SMEs from Bali and Lombok and one Indonesian corporate based-NGO initiated to publish its stand-alone sustainability report. They were PT Intaran Indonesia, CV Manunggal Aswinabawa Sejahtera, PT Bening Big Tree Farms and Yayasan Danamon Peduli.

However, the amount of Indonesian companies published their stand-alone sustainability reporting is still very limited. Compared to total companies listed in the Indonesia Stock Exchange, the proportion is only 2.87%, 4.88% and 5.91% respectively in 2006, 2007 and 2008. The trend of reporting is positive and become more intense as the increase of awareness of CSR among Indonesian companies, especially those from agriculture and mining industries. Initiative to promote sustainability reporting by the Indonesian Institute of Management Accountants (IAMI) through annual Indonesia Sustainability Reporting Awards (ISRA) and the Government parliamentary effort to regulate CSR implementation in the Law No. 25 Year 2007 concerning Capital Investment (*Penanaman Modal*) and Law No. 40 year 2007 concerning Limited Company (*Perseroan Terbatas*), in which CSR practices become mandatory for resource-based companies, also assign significant impacts to the motivation of reporting.

Sustainability Reporting of International Oil Companies: Content Analysis

A content analysis has been conducted to assess the extent to which international oil companies have disclosed their corporate responsibility in line with GRI-based reporting principles during the period of 2005-2007. What next is the summary of the analysis.

Beyond Petroleum (BP) p.l.c

Table 4 disclosed that BP has applied an average of 44%, 45%, 46% and 54% of the GRI guidelines in their 2005, 2006, 2007 and 2008 Sustainability Report respectively. The application covers 91% of GRI guidelines applied in terms of Corporate Context, 63% in economic performance indicators, 40% in environment performance indicators and 38% in social performance indicators. During the period of 2005 - 2008, the disclosure of economic aspects has dominated its Sustainability Reporting.

Chevron Corporation

From table 5 it can be concluded that Chevron has applied an average of 53%, 54%, 53% and 40% of the GRI guidelines in their 2005, 2006, 2007 and 2008 Corporate Responsibility Report respectively. It consists of 84% of GRI guidelines applied in term of Corporate Context, 54% in economic performance indicators, 50% in environment performance indicators and 40% in social indicators. During the period of 2005 - 2008, the disclosure of economic aspects has dominated its Sustainability Reporting.

ExxonMobil Corporation

From table 6 it can be concluded that Exxon Mobil has applied an average of 45%, 56%, 50% and 49% of the GRI guidelines in their 2005, 2006, 2007 and 2008 Corporate Citizenship Report respectively. It consists of 81% of GRI guidelines applied in term of Corporate Context, 67% in economic performance indicators, 51% in environment performance indicators and 39% in social performance indicators. During the period of 2005 - 2008, the disclosure of economic aspects has still dominated its Sustainability Reporting.

Total S.A

Table 7 reveals that Total has applied an average of 58%, 50%, 65% and 65% of the GRI guidelines in their 2005, 2006, 2007 and 2008 Corporate Social Responsibility Report respectively. It consists of 88% of GRI guidelines applied in term of Corporate Context, 61% in economic performance indicators, 43% in environment performance indicators and 55% in social performance indicators. During the period of 2005 - 2008, the disclosure of economic aspects has still dominated its Sustainability Reporting.

PT Medco Energi Internasional Tbk

From table 8 it can be seen that Medco Energi has applied an average of 29% and 40% of the GRI guidelines in their 2006 and 2008 Sustainability Report respectively. It consists of 75% of GRI guidelines applied in term of Corporate Context, 42% in economic performance indicators, 44% in environment performance indicators and 23% in social performance indicators. During the period of 2006 and 2008, the disclosure of economic aspects has still dominated its Sustainability Reporting.

Sustainability Reporting and Production Sharing Contract

The Production Sharing Contract which is the main contractual agreement regulating the relationship between the Government of Indonesia (as the host government) and the Production Sharing Contractors operating in the up-stream oil and gas industry, has to some degree addressed the triple bottom line aspect of Sustainability Reporting. (PSC, 2008)

Economic Aspects

Some clauses in the PSC have stipulated the economic aspects of petroleum operation in Indonesia. For example:

- **"CONTRACTOR** will recover all Operating Costs out of the sales proceeds or other disposition of the required quantity of Crude Oil equal in value to such Operating Costs, which is produced and saved here under and not used in Petroleum Operations".

- "Of the crude oil remaining after deducting all operating costs, the parties shall be entitled to take and receive each year, respectively 61.5385% for the Government and 38.4615% for the Contractor."

- The Contractor "shall pay to the Government of Indonesia the Income tax including the final tax on profits after tax deduction imposed on it pursuant to the Indonesian income tax law and its implementing regulations".

- The Government "shall assume and discharge other Indonesian taxes of the contractor including Value-added Tax, transfer tax, import and export duties on materials, equipment and supplies brought into Indonesia by the contractors, their contractors and sub-contractors"

- The Contractor "shall fulfill obligation for supply of domestic market in Indonesia..."

- The Contractor "shall give preferences to such goods and services which are produced in Indonesia or rendered by Indonesian nationals, provided such goods and services are offered at equally advantageous conditions with regard to quality, price, availability at the time and in the quantities required."

In addition there are:

- Clauses on the First Tranche Petroleum, Investment credit, as well as payment of bonuses and compensations.

- Exhibit C of the PSC on the Accounting Procedures to be followed by all parties of the contract. The procedures make it possible to maintain books and account for recording all petroleum expenditures such as exploration, development, production and administrative ones.

Social Aspects

The PSC also stipulates that all production sharing contractors have to maintain good relationship with the community surrounding its operation areas. For that purpose, the PSC states:

- "Contractor furnish such other funds and be responsible to conduct a community development programs relating to the community surrounding and/or adjacent of the Contract Area during the term of the Contract."

In addition:

- Contractors "shall prepare and carry out plans and programs for industrial training and education of Indonesians for all job classifications with respect to operations contemplated hereunder".

- Contractor "shall agree to employ qualified Indonesian personnel in its operation and undertake the schooling and training of Indonesian personnel for labor and staff positions including administrative and executive management positions"

- Contractor shall "comply with all applicable laws of the Republic of Indonesia. It is also understood that the execution of the Work Program shall be exercised so as not to conflict with obligations imposed on **GOI** by international laws;"

Environmental Aspects

Beside the economic and social aspects, the Indonesian PSC also requires all contractors to fulfill their obligations to protect the environment. For example:

- Contractor "shall conduct an environmental baseline assessment at the beginning of **CONTRACTOR's** activities";

- Contractor "shall take the necessary precautions for protection of ecological systems, navigation and fishing and shall prevent extensive pollution of the area, sea or rivers and other as the direct result of operations undertaken under the Work Program;

- Contractor "shall after the **CONTRACT** expiration or termination, or relinquishment of part of the Contract Area, or abandonment of any field, remove all equipment and installations from the area in a manner acceptable to **BPMIGAS** and **GOI**, and perform all necessary site restoration activities in accordance with the applicable Government regulations to prevent hazards to human life and property of others or environment...”

- Contractor “shall include in the annual Budget of Operating Costs, an estimate of the anticipated abandonment and site restoration costs for each exploratory well in the Work Program...”

- Contractor “shall include with requisite Plan of Development for each commercial discovery, an abandonment and site restoration program required after relinquishment of any part of Contract Area or abandonment of any Field together with a funding procedure for such program. The amount of monies estimated to be required for such abandonment and restoration program will be called **“Abandonment and Restoration Funds”** or **“AARF**” and shall be determined each Year in conjunction with the Budget of Operating Costs for the Plan of Development and Work Program and Budget of Operating Costs and be reviewed in the subsequent Years in accordance with Exhibit C.

- Contractor “shall comply with all applicable laws of the Republic of Indonesia. It is also understood that the execution of the Work Program shall be exercised so as not to conflict with obligations imposed on **GOI** by international laws”

Conclusion and Recommendation

Conclusion

Based on the previous discussion, the following conclusion could be tentatively drawn:

- Some Indonesian companies have managed to publish their own stand-alone Sustainability Report which evidently shows the awareness of Indonesian companies towards Sustainability Reporting processes;

- The main disclosure made by Indonesian companies in their Sustainability Reports is that of economic performance indicators;

- GRI-based reporting has been widely used in the sustainability reports published by Indonesian companies;

- GRI-based sustainability reporting is the main reference used by international oil and gas companies, instead of other reference such as the American Petroleum Institute/International Petroleum Industry Environment Conservation Association (API/IPIECA) Oil and Gas Industry Guidance on Voluntary Sustainability Reporting;

- Some industries have developed Sector Supplements to help companies addresses the sustainability issues which is unique to the industry;

- Economic aspect disclosures have been dominating the Sustainability Reports published by international oil and gas companies;

- Production Sharing Contract has covered some triple-bottom line aspects required for publishing sustainability reports;

- GRI-based Sustainability Reporting seems to fit properly the information needed by the stakeholders of oil and gas industry.

Recommendation

The following recommendations could be offered by this article:

- In order to increase the transparency and public accountability in managing the industry, oil and gas companies operating in Indonesia need to voluntarily publish their own sustainability reports. Mandatory disclosures seem to be the last option if voluntary approach does not work;

- Oil and gas companies operating in Indonesia needs to develop their own Sector Supplement which is unique to the Indonesian business environment.

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