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COMMITTEE ON SUSTAINABLE ENERGY

Ad Hoc Group of Experts on Harmonization of
Fossil Energy and Mineral Resources Terminology

Third session
Geneva, 11-13 October 2006

**REPORT OF THE AD HOC GROUP OF EXPERTS ON HARMONIZATION
OF FOSSIL ENERGY AND MINERAL RESOURCES TERMINOLOGY
ON ITS THIRD SESSION**

I. INTRODUCTION

1. The third session of the Ad Hoc Group of Experts on the Harmonisation of Fossil Energy and Mineral Resources Terminology was held on 11-13 October 2006. For additional background, interested persons are also advised to reference documentation on the UN Framework Classification (UNFC) for Fossil Energy and Mineral Resources and the work of the Ad Hoc Group of Experts at: <http://www.unece.org/ie/se/pp/unfc11oct06.html>.

II. PARTICIPATION

2. The meeting was attended by representatives from the following UNECE member countries: Bulgaria, Canada, Croatia, France, Hungary, Norway, Poland, Russian Federation, Slovakia, Slovenia, Switzerland, Turkey, Ukraine, United Kingdom of Great Britain and Northern Ireland, and United States of America.

3. Representatives of the following countries participated under Article 11 of the Commission's Terms of Reference: Australia, China, Kuwait, Libyan Arab Jamahirya, South Africa, Sudan, Syrian Arab Republic, and Venezuela.

4. Representatives of the United Nations Conference on Trade and Development (UNCTAD) and the following international organizations were in attendance: International Atomic Energy Agency (IAEA), Organisation for Economic Cooperation and Development (OECD), Nuclear Energy Agency (NEA), Organisation of Petroleum Exporting Countries (OPEC).

5. The following non-governmental organizations were represented: American Association of Petroleum Geologists (AAPG); European Federation of Geologists (EFG); Committee for Mineral Reserves International Reporting Standards (CRIRSCO), International Accounting Standards Board (IASB), International Valuation Standards Committee (IVSC), Society of Petroleum Engineers (SPE), World Energy Council (WEC), and World Petroleum Council (WPC).

III. OPENING OF THE MEETING AND WELCOME

6. Mr. Fred Romig, Deputy Director of the Sustainable Energy Division opened the meeting. Mr. Romig welcomed all participants noting the growing interest in development of a common and universally applicable system for terminology for energy and mineral reserves and resources. The UN Framework Classification (UNFC) on Fossil Energy and Mineral Resources, he explained, is well-placed to serve this role, but he emphasized that to be widely accepted the UNFC must respond to a broad range of needs and applications across the full range of users. He encouraged the participants to take full advantage of the three days of meetings to make definitive progress in furthering the development of the UNFC.

IV. ADOPTION OF THE AGENDA (AGENDA ITEM 1)

7. The provisional agenda (ECE/ENERGY/GE.3/2006/1) was adopted without amendment.

V. ELECTION OF OFFICERS (AGENDA ITEM 2)

8. Mr. S. Heiberg (Norway) was re-elected Chairman; Mr. T. Ahlbrandt (United States); Mr. M. Hamel (OPEC Secretariat), Mr. Y. Podturkin (Russian Federation), and Mr. A. Subelj (Slovenia) were re-elected Vice-Chairmen. Mr. F. Birol (IEA), Mr. F. Camisani-Calzolri (CRIRSCO), and Mr. J. Ritter (SPE) were elected Vice-Chairmen.

VI. ACTIVITIES AND PRIORITIES OF THE COMMITTEE ON SUSTAINABLE ENERGY, AND MATTERS FOR CONSIDERATION BY THE AD HOC GROUP OF EXPERTS (AGENDA ITEM 3)

9. The secretariat briefed the Ad Hoc Group of Experts on the outcome of the reform process undertaken by the UNECE and implemented effective 1 April 2006. For Energy, the outcome of the reform was a positive one in that the Energy Subprogramme was retained, largely in its current form. One of the principle objectives of the reform process desired by member States is greater collaboration with other international organizations and continued engagement of the private sector. The secretariat noted that the work of this group of experts is an excellent example of this type of cooperation. The Committee on Sustainable Energy will review the

Group's programme of work for 2007 at its fifteenth session in November 2006. The secretariat will deliver any further direction on the activities and work of the Group of Experts following the Committee session.

10. The Chairman provided a summary of the delivery of the programme of work for 2006 and the tasks set forth in the Group's Terms of Reference.

11. The Ad Hoc Group of Experts completed or contributed to the following tasks in the programme of work for 2006:

- (a) Continued development of the UNFC was achieved through promotion at meetings and conferences, on average one venue every other week. The Ad Hoc Group of Experts continues to actively pursue opportunities to progress awareness of the UNFC to a multitude of stakeholders.
- (b) Development of specifications and guidelines was facilitated by the decisions taken at its second session, agreeing that CRIRSCO and SPE would join the Bureau and further agreement that CRIRSCO/UNECE experts and the SPE Oil and Gas Reserves Committee would be the task forces on solid minerals and on petroleum, respectively. The task force on solid minerals proposed texts in the first half of 2006, discussed in Johannesburg in May and in Geneva in July. A Memorandum of Understanding was recently signed with the SPE where the ultimate goal is to produce one common terminology through one common process.
- (c) Case studies have been undertaken to demonstrate the applicability of the UNFC, in particular by demonstrating how reserves and resources evaluations fall within the realm of project analysis.
- (d) Cooperation with stakeholders has progressed very well as demonstrated by the attendance at the annual meeting.

12. Of the items agreed in the terms of reference, the communication directed to educators and large-scale implementation is lacking. This requires the prior finalization of texts, in particular Guidelines and Specifications, funding and subsequent mobilization of the organizations represented in the Group of Experts.

13. In meeting the tasks outlined in the Terms of Reference, the Ad Hoc Group of Experts completed or contributed to the following tasks:

- (a) Seeking to continue developing the harmonization system of the United Nations Framework Classification for Fossil Energy and Mineral Resources (UNFC) for the existing commodity definitions, ensuring development of a harmonized system through cooperation with recognized industry professional societies, and facilitating the development of the Specifications and Guidelines to the UNFC. These tasks were met through the efforts of the task forces on solid minerals and on petroleum.

- (b) Encouraging the development of education programmes on the UNFC, using in particular industry professional societies capabilities. This task was met by the efforts of many members of the Group of Experts who presented the UNFC at industry events all over the world at an average of one event every two weeks.
- (c) Inviting and facilitating development of case studies on a voluntary basis, using the developed Specifications and Guidelines. Case studies are under development and were discussed at the third session.
- (d) Seeking to strengthen inter-agency cooperation and to cooperate and collaborate with all stakeholders. The Ad Hoc Group of Experts cooperates with a large range of stakeholders and continues to encourage cooperation by other international organizations, governments, the private sector and professional organizations.

VII. REPORTS OF THE SOLID MINERALS AND PETROLEUM TASK FORCES (AGENDA ITEM 4)

14. One of the principle objectives of the Ad Hoc Group of Experts as defined by its terms of reference is to facilitate the development of the *Specifications* and *Guidelines* to the UNFC, through cooperation with the SPE for petroleum and CRIRSCO for solid minerals. The leaders of each task force updated the meeting on their progress to date.

15. Mr. Ferdi Camisani, Solid Minerals Task Force Leader and Vice Chairman of the Ad Hoc Group of Experts delivered the report of the Solid Minerals Task Force. Mr. Andrej Subelj, Task Force Co-chairman and Vice Chairman of the Ad Hoc Group of Experts, discussed the development of draft guidelines, and Ms. Mucella Ersoy, Turkish Coal Enterprises and Leader of the Solid Minerals Stakeholders, provided additional background comparing the UNFC and CRIRSCO Template. The Solid Minerals Task Force proposed two options for the UNFC application to solid minerals.

- (a) The first option would embed the CRIRSCO *International Template for Reporting of Exploration Results, Mineral Resources and Mineral Reserves* (The CRIRSCO Template) into the UNFC directly. The CRIRSCO Template integrates internationally-recognized minimum standards in national reporting codes with recommendations and interpretive guidelines for the public reporting of exploration results, mineral resources and mineral reserves. CRIRSCO, however, is concerned that embedding the Template into the UNFC guidelines may result in a loss of oversight and control over the Template by CRIRSCO members.
- (b) A second, and probably preferred, option is to develop a mapping module whereby the existing CRIRSCO definitions and classification system are retained unchanged, and “mapped” against the UNFC to link the CRIRSCO definitions to the triple-digit codes used in the UNFC. To support these efforts, Mr. Camisani recommended that the Solid Minerals Task Force’s mandate be broadened to include investigation into codification for the solid minerals section of the UNFC.

- (c) The continuing development of a glossary of universal terms and definitions by the Russian delegation was noted.
16. Mr. John Ritter of SPE, Vice Chairman of the Ad Hoc Group of Experts and Leader of the Task Force on Petroleum, provided the update on the activities of the Task Force on Petroleum to the Group of Experts.
- (a) SPE, with its partners AAPG, WPC, and the Society of Petroleum Evaluation Engineers (SPEE), is revising and updating the SPE/WPC/AAPG/SPEE definitions and classification system concurrent with the work on the UNFC. The proposed revisions were open for industry comment from 16 October 2006 through 1 February 2007. Publication of the final document is expected in late first quarter or second quarter 2007. The bureau will coordinate development of comments from the Ad Hoc Group of Experts.
- (b) The proposed system incorporates new best practices and also addresses unconventional resources. It is a “project-based” system, as is the UNFC for oil & gas, making the two substantially compatible. SPE is committing to actively promote and facilitate in-depth understanding of the definitions and their universal adoption by the oil, gas, and related industries; international financial organisations; governments; regulatory agencies; and reporting bodies with the objective being recognition as the premier classification standard. In this regard, SPE is also committed to undertake a substantial educational effort and have established a committee for this purpose chaired by Mr. Michael Black.

VIII. PRESENTATION OF GUIDELINES FOR CASE STUDIES AND EXAMPLE CASE STUDIES UTILIZING THE UNFC (AGENDA ITEM 6)

17. The meeting received two presentations directly relating to the development of specifications and guidelines. The first, from Mr. Andrej Subelj, focused specifically on guidelines for the solid minerals sector. The second by Mr. John Etherington, SPE, addressed both petroleum and solid minerals.
18. Mr. Subelj, Vice Chairman, prepared an historical background and principles for drafting guidelines for the solid minerals recommending use of the CRIRSCO Template, a general glossary of terms and general rules of conduct. The document was distributed to the Group of Experts at the third session for review and comment.
19. Mr. Etherington presented options for integrating the UNFC, SPE, and CRIRSCO codes into a coherent and multi-purpose framework suitable for all its users.
- (a) The first option would retain the current UNFC text but would modify CRIRSCO and SPE guidelines style and content to create a merged single standard. According to Mr. Etherington, there are several practical limitations to this model. CRIRSCO and SPE have fully documented systems utilized by the majority of commercial organizations in their respective industries. Further they have in place mechanisms and/or committees to maintain the systems through ongoing liaison with their primary stakeholders. In the case

of CRIRSCO, its existing Template reflects national reporting standards that are embedded in, or referenced by, the majority of the regulatory agencies.

- (b) The second model is “Focused Integration.” This model would (i) retain the current CRIRSCO and SPE guidelines; (ii) modify the UNFC text to eliminate redundancy with the CRIRSCO and SPE guidelines; and (iii) map UNFC codifications and terms to SPE and CRIRSCO classification and terminology. CRIRSCO and SPE would take responsibility for maintaining the guidelines on behalf of their international industry clients and also in maintaining the “mapping” to UNFC codifications. Companies and agencies would have the opportunity to further examine the overall system and evaluate which components are best suited to their purposes in addressing their resource evaluation and business process needs. National and regional classification systems could also be mapped to the UNFC and to the associated SPE and CRIRSCO guidelines. Each organization would be responsible for maintaining and publishing these “mappings” within their system documentation. Mr. Etherington expressed the view that this is the preferred option for SPE and CRIRSCO because it overcomes the limitations outlined for the first option. It further has the advantage of rapid implementation. Some participants questioned whether this would be enough to meet the needs for a common global terminology in the near future and emphasized that the introduction of an International Financial Reporting Standard for Extractive activities might present an important opportunity for improving all of the existing systems. Other participants considered that further clarification of these options would be necessary for developing Guidelines and Specifications.

20. The Ad Hoc Group of Experts has sought the development of voluntary case studies to test the UNFC against real-world applications, and the meeting received presentations on case studies under development in Russia, Norway, China, and Ukraine. Supporting documents are available at <http://www.unece.org/ie/se/pp/unfc11oct06.html>. The meeting agreed that additional case studies, on a voluntary basis, would be beneficial and any such studies require prior completion of the underlying consistent guidelines. Future case studies may provide improved guidance to practitioners if produced on a template to help illustrate the application of the classification in a systematic way.

IX. REVIEW OF IDENTIFIED OUTSTANDING NATIONAL AND INTERNATIONAL NEEDS (AGENDA ITEM 7)

21. The Terms of Reference for the Group of Experts identify four principal applications whose needs must be met, to the extent possible, by the specifications and guidelines that are being developed to implement the UNFC: energy studies, resources management, corporate business processes, and financial reporting. Delegates convened in small breakout sessions on the second day of the session allowing participants to address a range of issues that will be further considered by the Group of Experts and the Task Forces in their development and recommendation of the specifications and guidelines during the coming year. Reports were delivered to the entire Group of Experts on the third day of the session.

22. A common theme throughout the discussions was the UNFC’s possible roles: (i) as a global classification system which the fossil energy and mineral resource classifications can be mapped against creating a common language and enhancing international communication, and

(ii) as a classification system that can be adopted for direct use by a stakeholder. The meeting also noted the potential use of the UNFC to serve as a system for classifying unconventional resources, which may not fall neatly into traditional classification schemes, and also as a system to classify “recipient formations” for storage of carbon dioxide or other substances.

23. The discussion on financial reporting touched on a wide range of issues from designation of a competent person to appropriate levels of disclosure since these are at the core of most existing classification systems and, especially with regard to disclosure. Generally it was agreed that the reporting entity should take responsibility for the designation of a competent person and bear the consequences of any mistakes. The participants agreed that it is best that all significant assets of the company be disclosed: (i) so long as there is a proper description to inform investors, regulators, and others, as is reasonable and appropriate, and (ii) it does not unduly compromise the need for confidentiality. A publicly available material change report should be filed on the acquisition and disposal of properties of significance. Finally, there was agreement that users must be included in the process of developing a common code, because user ignorance is one of the most significant challenges. It is notable that some issues such as fair value were also discussed in a separate IASB workshop, the report of which is summarized in paragraphs 26-28.

24. For corporate business processes, a comprehensive system must provide the ability to measure and effectively communicate the resource portfolio and also provide a clear picture of the risk and opportunities associated with any asset in order to facilitate the decisions including portfolio management. A uniform code can also present a company with the ability to measure itself against competitors through use of uniform terminology and applications, and can assist with defining deliverables for internal resources allocation and management, in particular both personnel and capital.

25. One breakout session jointly addressed the needs in international energy studies and government’s resources management. The participants noted that for the UNFC or any common code to be useful, it must overcome problems of translation. Common terms that are universally recognized must be adopted and acronyms chosen carefully and well-defined. The participants also suggested that the value of a common code lay in offering the possibility for using a same terminology rather than as methodology for estimating reserves and resources. It was generally thought that circumstances varied too widely between and within assets depending on the nature of the assets and of the observations of it, for standardization of estimation procedures to be feasible, but that the standardization of presentation of results using UNFC concepts was an attainable and worthwhile objective. A third point raised was that applications for government’s resources management and international energy studies generally concern large systems with long transient times compared to those of traditional investors in securities where the underlying processes can change quickly, thereby requiring estimates of ill defined recovery from immature projects and undiscovered resources.

X. IASB CONVERGENCE PROCESS (AGENDA ITEM 5)

26. Concurrent with the breakout sessions on national and international needs, the IASB held a workshop with the SPE/CRIRSCO “Convergence Team” in support of the IASB’s Extractive Activities Research Project. The UNECE and the International Organization of Securities Commissions (IOSCO) participated as observers. Mr. Glenn Brady, Australian Accounting Standards Board and Project Leader IASB, and Mr. John Ritter, SPE representative and Vice Chairman of the Ad Hoc Group of Experts, delivered the report.

27. IASB initiated the Research Project in April 2004, and is currently in the research phase with a discussion paper expected in mid-to-late 2007. The ultimate deliverable is an International Financial Reporting Standard for Extractive Activities. The major issues being considered and evaluated through the project relate to the measure of the commercial value of extractive activities. Underlying these are the definitions of reserves and resources. The principal issue at the moment is that of determining whether the fair market value should be reported on the balance sheet in lieu of or in addition to historical costs, which tend to be the measure most often used today. The most notable concerns with regard to fair value are the unreliable nature of the estimates and also the level of effort necessary to produce the fair value estimate. The research team is therefore, studying other disclosures. The IASB will attempt to further clarify the meaning of fair value, and the Convergence team will develop qualitative language to describe the associated uncertainties.

28. In moving forward on the question of possible convergence of solid minerals and oil/gas resource/reserve terminology, the IASB and Convergence Team identified three discrete activities in the near term: (i) mapping to explain the relationship of petroleum and minerals processes and terminology; (ii) better defining the relationship between “commercial” and “economic” and to describe what constitutes a commitment and how this relates to asset recognition; and (iii) clarification of confidence modifiers.

XI. GOVERNANCE STRUCTURE FOR THE UNFC, INCLUDING FINANCIAL SUPPORT (AGENDA ITEM 8)

29. This item was introduced by the secretariat in response to the request of the Committee on Sustainable Energy to identify possible options for a long-term governance structure to administer the UNFC and to meet some members’ desires for more permanence. Following extensive internal research, the secretariat identified three options for the consideration of the Committee and the ECE Executive Committee. The options, outlined in a preparatory paper for the Committee entitled, “Response by the Committee on Sustainable Energy to the Workplan on ECE Reform” (ECE/ENERGY/2006/12), <http://www.unece.org/ie/se/docs/comm15.html>, include: (i) creating a new body, provisionally named the “United Nations Global Centre for Fossil Energy and Mineral Resources” to be located within the UNECE, and in which governments are active participants and take decisions with the strong involvement of other international organizations, the private sector and NGOs; (ii) elevating the present Ad Hoc Group to a Working Party within the UNECE in which governments are the principle actors; or (iii) retaining the status quo and continuing as an Ad Hoc Group of Experts within UNECE, with

continuing large participation of governments, international organizations, professional associations and the private sector.

30. The ensuing discussion revealed clear opposition to transformation to a Working Party due to the limited participation of the private sector and non-governmental organizations, participation that is crucial to the development and maintenance of any global system. While there was clear support for the Centre by some participants, some other delegates opposed this move on the basis that the current structure of the Ad Hoc Group (i) offers the required flexibility and inclusiveness, (ii) has demonstrated its efficiency, and (iii) the previously adopted Terms of Reference are still valid and priority should be given to the development of Guidelines in collaboration with the SPE and CRIRSCO.

31. The meeting agreed to recommend renewal of the mandate of the Ad Hoc Group for one year. It also agreed that the Ad Hoc Group of Experts should work to further explore the option to create the Centre, provided that the Objectives defined in the Ad Hoc Group's Terms of Reference are met.

XII. PROGRAMME OF WORK FOR 2007 (AGENDA ITEM 9) AND CONCLUDING REMARKS AND RECOMMENDATIONS (AGENDA ITEM 11)

32. After discussion, the Ad Hoc Group of Experts:

- (a). Agreed to recommend that the Committee on Sustainable Energy renew the mandate of the Ad Hoc Group of Experts, re-emphasising the importance of the Objectives contained in its Terms of Reference.
- (b). Agreed to continue support of the IASB research project;
- (c). Agreed to provide timely comments on the proposed SPE classification and definitions;
- (d). Agreed to map the UNFC to the CRIRSCO and SPE texts and guidelines. As part of this effort, the Ad Hoc Group of Experts will consider recommendations from the CRIRSCO/AHGE Task Force, the SPE Task Force and the Convergence Team in reviewing the texts, and, in cooperation with the two Task Forces, recommend new texts and changes of existing texts when required;
- (e). Agreed to request the Task Forces and the SPE/CRIRSCO Convergence Team to develop a comparison between minerals classification and project based classification principles;
- (f). Agreed to test the application of the UNFC on nonconventional energy resources;
- (g). Agreed to explore cooperation with the International Energy Forum Secretariat (IEFS);
- (h). Agreed to assess how the UNFC can improve support for stakeholders' decisions;

- (i) Agreed to consider how the UNFC can be used in classifying recipient formations (ie, CO2 storage);
- (j) Agreed to develop a strategy for outreach/education and act on it; and
- (k) Agreed to develop a business plan for operation and finance of the activities of the Ad Hoc Group of Experts/Centre.

XIII. OTHER BUSINESS (AGENDA ITEM 10)

33. None.
