Ecopetrol calls for alignment among regulators and greater guidance on evaluating impacts

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Introduction

State-owned Ecopetrol is the largest company in Colombia and one of the leading integrated energy groups on the American continent, with a presence in nine countries. As part of its technology, environmental, social and governance (TESG) agenda, the company is leading initiatives in decarbonization, renewable energy, water management and stewardship, local development and digital transformation.

Ecopetrol is now in its second year of reporting against the World Economic Forum's SCMs, which feature in the company's latest integrated report. The sustainability issues of greatest materiality to the company are climate change, water management and stewardship, and local development.

While the company has found it easy to integrate the Forum's core metrics into its existing GRI-based reporting framework, it is experiencing overload in terms of the demand for sustainability reporting. Consequently, Ecopetrol is calling on regulators to ensure alignment on a single global standard as a priority. A second priority is to develop rigorous methodologies to account more comprehensibly for the "valued impacts" of social and environmental measures.

For this case study, we interviewed Maria Villa, from Ecopetrol's Corporate Responsibility team, which oversees, among other things, environmental, social and governance (ESG) reporting and stakeholder engagement.

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>
> Maria Villa, Corporate Responsibility, Ecopetrol

Key takeaways

- Ecopetrol features the Forum's SCMs in this year's integrated report; the most material sustainability issues for the company are climate change, water management and stewardship, and local development.

- Investors are focused on climate metrics and governance; but as a state-owned business and Colombia's largest employer, Ecopetrol also has responsibilities towards local communities – so social metrics are equally vital.

- As frameworks have multiplied, the ESG reporting workload has become overwhelming – streamlining sustainability standards into a single global framework is an urgent priority.

- To avoid overload, Ecopetrol reports only against sustainability metrics that can be demonstrated to generate value for the company and its stakeholders.

- Ecopetrol plans to evaluate or monetize the impacts of its environmental and social measures and metrics, and it is looking into methodologies to do so.
- Rigorously measuring Scope 3 emissions is another major challenge. Ecopetrol's decarbonization department is conducting this analysis, working closely with the vice-presidencies of finance and strategy.
- Ecopetrol has prioritized the role of tech to help deliver on its TESG agenda; for example, by implementing the online database Mero, through which all departments input, revise and approve their non-financial data for disclosure.
- Ecopetrol strongly advises standard-setters to collate a single global sustainability reporting framework using existing standards, rather than invent new metrics.

Rationale for reporting: prioritize climate-focused investors plus a long-term commitment to local communities

In 2022 Ecopetrol launched its 2040 business strategy, which defines three business priorities: hydrocarbons; the energy transition; and energy transmission, infrastructure and telecommunications. Ecopetrol's traditional business as an oil and gas company means that environmental metrics are the most material to its shareholders. "Investors are very focused on climate-related indicators and on governance," says Maria Villa. Ecopetrol's integrated report includes disclosures against not only the SCMs but also the (former) Sustainability Accounting Standards Board (SASB), the Task Force on Climate-related Financial Disclosures (TCFD), the UN's Global Compact and the Dow Jones Sustainability Indices (DJSI).

Other stakeholders, such as the state and local communities, are more interested in the company's social performance, she adds.

As a state-owned enterprise that is one of the country's largest employers and delivers 11% of Colombia's national budget, Ecopetrol is acutely conscious of the role it plays in society and its responsibilities towards local communities. "The country expects a whole lot more from our company than just selling oil," says Villa, adding: "We have commitments to deliver social welfare on the ground near our operations – that's why local development is one of the elements most material to our company."

The type of local development in which Ecopetrol engages includes investing in transport infrastructure, education and a special focus on generating jobs and skills outside the oil and gas sector as the energy transition gathers pace. The company also takes its commitments to its 18,000-strong workforce very seriously, especially in the wake of the COVID-19 pandemic.

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Challenges – reporting overload and impact evaluation

Although the Colombian government does not yet oblige companies to report on their sustainability performance, ESG reporting will become mandatory for all listed companies in Colombia in 2024. Consequently, Ecopetrol is striving to become aligned with all the main standards on the market. But "the workload can be overwhelming – our department spends 12 months a year reporting," says Villa. "It's also too much for other departments such as finance, HR, production and exploration – we can't keep asking them for information throughout the year," she adds.

Companies across the oil and gas sector are reporting similar challenges relating to ESG disclosures, she says. Nevertheless, the value chain as a whole is becoming more expert in its sustainability reporting, with a general trend towards greater transparency. However, reporting rigorously on Scope 3 emissions will remain "a challenge for everybody for some time", according to Villa.

Meanwhile, with regards to the SCMs, the expanded People metrics pose the "greatest challenge", according to Villa. Although Ecopetrol reports on diversity and inclusion, freedom of association, pay equality and wage levels, the company is still internally evaluating how to monetize the impacts of these HR measures.
"We don't as of yet have a specific model to do that," says Villa.

> **We are working with our suppliers to help them measure their Scope 1 and our Scope 3 emissions – it's a major endeavour.**
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> Maria Villa

Solutions: focus on value and technology

Ecopetrol's solution to ESG reporting overload is to measure every metric against a common criterion: Does the metric generate value for the company and does it generate value for other stakeholders? "We are disciplined and focused," says Maria Villa, "we don't just fill gaps for the sake of it; we believe there are aspects that don't generate value and pertinence is important."

For Ecopetrol, value is not simply financial but relates to facilitating the company's wider societal goals, as well as its alignment with the UN's 2030 Agenda for Sustainable Development and the Paris Agreement on climate. When choosing what to disclose, the company looks to satisfy its stakeholders and report on the metrics that provide valuable information to them. The multiplicity of reporting standards obliges Ecopetrol to choose what its most pertinent and relevant to its stakeholders, while discarding those metrics that add complexity without bringing much value.

> **We are very rigorous when it comes to deciding on sustainability metrics. We don't just fill gaps for the sake of it – the metric has to generate value to our stakeholders and value to our company.**
>
> Maria Villa

Ecopetrol has prioritized the role of tech to help deliver on its TESG agenda. "We believe we will achieve all our goals by leveraging technology," says Villa, "so we've embedded technology at the heart of the sustainability pillar of our 2040 corporate strategy." Starting this year, Ecopetrol is using an online platform called Mero to collect all TESG data for disclosure. "We now have one place that holds all the indicators and information that measure our sustainability agenda, with all the necessary evidence to be disclosed to stakeholders," she says. The system has three different types of user access related to data functions (input/revision/approval), with different people responsible for each step or function. "We coordinate, but everyone actively participates and data producers are accountable," says Villa.

> **We've done integrated reporting since 2009, but it's still a challenge to report non-financial as well as financial information.**
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> Maria Villa

Impact, learning and advice

Ecopetrol started out by trying to report on every sustainability indicator required. But the feedback from stakeholders was that the report was far too long. So for its latest integrated report, the company has decided to base its reporting on GRI's essential metrics and the Forum's core metrics. "Our discussion was around how to disclose information expected from our stakeholders and material to our company, as well as how to focus our reporting on that," says Villa.

Data collection used to be unsophisticated, done through means such as emailing Excel spreadsheets, but innovative technology has provided agility and traceability to the process. The new online platform Mero has greatly streamlined the collection of sustainability information, including the necessary supporting evidence. The corporate responsibility team shares a detailed reporting timeline with all departments every October to ensure Ecopetrol's integrated report can be delivered by the following March. "Every vice-presidency in the company has delegated someone for corporate responsibility reporting, who is our focal point – that ensures efficiency and data reliability," says Villa. Leadership is also important: "Our CEO is very, very ESG-driven – it is a priority for him and the board of directors, so transparency and disclosure come from the top," says Villa.

> **Choose to report the information you know is going to generate value for your stakeholders – go for quality over quantity.**
>
> Maria Villa

Advice for regulators

Maria Villa says Ecopetrol is keen to start reporting on the expanded metrics offered by the SCMs, although she thinks there is still more work to be done to reach agreement on a common means of evaluating and monetizing the impacts of such metrics. Ecopetrol is closely following the discussions on impact valuation and intends to continue using recognized standards rather than pursuing its own methodologies.

The demand for ESG reports has now become "really unmanageable," says Villa. She calls on the standard-setters to use existing metrics rather than creating new ones, and encourages the EU and US SEC to work towards a single global sustainability reporting framework that is rigorous, comprehensive and science-based.

Villa also requests that regulators consider national contexts. For example, Colombian law requires public listed companies to present their financial reports to shareholders in the first quarter of the calendar year (i.e. by March). So a company such as Ecopetrol, which produces an integrated report, must collate all its non-financial disclosures by the same deadline – which is much earlier in the year than for European or US companies. Villa's request is that regulators account for such timelines when making their demands on sustainability reporting.

> **Please stop getting so creative! We can't have any more metrics – use what's out there.**
>
> Maria Villa

Added value of the Forum's Stakeholder Capitalism Metrics

Villa found it straightforward to integrate the Forum's SCMs into Ecopetrol's existing GRI-based reporting framework. "One of the main purposes of the Forum's metrics was not to reinvent the wheel, it was to draw on existing metrics," says Villa, "so it's great that reporting against the Stakeholder Capitalism Metrics doesn't require a lot of re-engineering." The Forum's metrics are a good foundation for ESG reporting, according to Villa, because they work as a comprehensive building block in the sustainability disclosure journey.

In terms of added value, Villa appreciates the perspectives offered by the Forum's expanded metrics, which other sustainability reporting frameworks do not capture. Ecopetrol is in the process of establishing social and environmental impact valuation metrics, but more guidance is needed on methodologies to capture the monetary or societal value of those impacts.

> **There is a series of really interesting expanded metrics that we would like to report on, which are still not part of other platforms.**
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> Maria Villa