

***United Nations' Meeting on Classification of Energy Reserves and Resources,
November 2004, Geneva, Switzerland***

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The following is extracted from a report by the author to the International Valuation Standards Committee (IVSC), with minor modifications for the purpose of publication.

I represented the IVSC at the First Session of the Ad Hoc Group of Experts on Classification of Energy Reserves and Resources (formerly Ad Hoc Group of Experts on the Harmonization of Energy Reserves/Resources Terminology), a body organized by the United Nations Economic Commission for Europe (UNECE). The meeting was held at the United Nations' Geneva offices on 10-11 November 2004 (AIMA Newsletter, Oct. 2004).

The legal purpose of the meeting comes from the charter of the Committee on Sustainable Energy of the UNECE, which in turn comes under a larger sustainable energy project of the United Nations Economic and Social Council. The United Nations Framework Classification for Energy and Mineral Resources (UNFC) was adopted by the United Nations Economic and Social Council at its annual session in July 2004, and recommended to countries for worldwide application. With the adoption of the UNFC, the purpose of the meeting was to launch a new program providing an improved basis for considering more efficient and benign extraction of energy resources from the earth, including support for the development of strategies for their exploration that are in line with the need for sustainable energy supplies. The new program calls for improving the present methods of resource assessment, valuation, classification and reporting, based primarily on the principles of the UNFC.

The UNFC is included by reference in the International Valuation Standards (IVS) Guidance Note, *Valuation of Properties in the Extractive Industries*, as a choice of classification system for reserves and resources. The United Nations would like the UNFC to become the predominantly used classification system worldwide, including for use in corporate reporting to the stock exchanges of the world under the International Financial Reporting Standards.

About 50 delegates attended the meeting. They were from approximately 23 countries and a number of international bodies. The regions well represented were Central and Eastern Europe, and the Middle East. The international bodies represented were primarily petroleum industry bodies, including the Society of Petroleum Engineers (SPE), the World Petroleum Congress (WPC), the Organization of the Petroleum Exporting Countries (OPEC), and the International Energy Foundation (IEF). SPE, WPC and IEF were represented by their highest people.

The meeting was chaired by Sigurd Heiberg of Statoil, Norway. It was run in a formal United Nations format. Delegates were addressed by their country's name or industry body's name, rather than their personal name. Presentations and discussions were translated into three

languages.

My 20-minute presentation was one of five initial presentations setting the stage for the meeting. Titled, "Securing Investments through Appropriate Financial Reporting," it provided a vision of the way forward for efficient financing of energy resource development through employing standards for classification of reserves and resources, the International Valuation Standards (IVS) and the International Financial Reporting Standards. My presentation addressed other recommendations to support the standards, including education and certification for mineral and petroleum valuation experts, international reciprocity to allow these experts to work across international borders, and development of a publicly accessible database for recording mineral and petroleum property transactions worldwide. My presentation drew a lot of interest from the delegates, and stimulated the most questions and controversy.

Michael Lynch-Bell, a senior partner of the accounting firm Ernst & Young, gave a presentation on financial reporting of reserves and resources. He discussed the conflicts between the various financial reporting systems of the world, and addressed the features and benefits of the soon-to-be-released International Financial Reporting Standard, *Exploration for and Evaluation of Mineral Resources*. Most presentations during the two days gave case study examples of the application of the UNFC to particular petroleum and coal fields throughout world. The presentations are available at <http://www.unece.org/ie/se/pp/adclas.html>.

On the morning of the second day, the delegates divided into two rooms, one for the mining industry and one for the petroleum industry. The purpose was to discuss the way forward in the application of the UNFC and other standards within the industries. Though my background is primarily mining industry based, the Chairman recommended that I attend the petroleum section, saying he felt my participation would be of most benefit there. I participated extensively in the discussions at that section.

My impression is that the petroleum industry and its leaders appear to be quite supportive of the UNFC. However, the SPE President, Kate Baker, cautioned that the UNFC still has a considerable approval process to go through within SPE, and that this might result in some adjustments in definition terminology being recommended.

Some of the Saudi Arabian delegates opposed the direction of meeting on a political basis. Near the close of the meeting, Saudi Arabia withdrew from future participation in the Ad Hoc Group, expressing concerns about national information security. In contrast, the OPEC delegate, Mr. Tampubolon, participated supportively, and had friendly, professional discussions with me.

The Ad Hoc Group leaders obviously view the IVSC and its standards as important to the minerals and petroleum industries and the sustainable energy development mission of the Group. However, my impression is that prior to this meeting, the attending leaders of SPE, WPC and IEF had little knowledge and understanding of the IVS and its relationship to the International Financial Reporting Standards. This meeting aided their understanding of the IVS and its role, which should prove quite beneficial to the imminent introduction of application of the IVS in the extractive industries.

At the close of the meeting, I was advised that there is a strong possibility that this or another group under the UNECE's Committee on Sustainable Energy would be taking up valuation as a specific area of research and discussion at a later date.