December 9, 2010

The Honorable Luis Aguilar
Commissioner, Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Commissioner Aguilar:

The American Petroleum Institute (API) would like to thank your staff, Smeeta Ramarathnam and Zachary May, for meeting with us on November 19th regarding Section 1504 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. We are very appreciative that you provided us with the opportunity at a time when the SEC has many complex rulemakings to complete, and we would welcome a continued dialogue with you on Section 1504 as the rulemaking process unfolds.

As we discussed during our meeting, under the internationally-recognized Extractive Industry Transparency Initiative (EITI), many countries report payments received from companies on an aggregate basis. We strongly support this model, which has been recognized by governments around the world and others as advancing the objective of revenue transparency (i.e., being able to hold governments accountable for the handling of the revenues they receive from resource extraction) while also protecting individual companies and shareholders from disclosure of commercially sensitive information and from the competitive disadvantages suffered when only some, not all, of the companies doing business in a country provide disclosure. However, we appreciate that the SEC feels constrained in its rulemaking discretion by the terms of the statute, which require reporting at the project level.

The term "project" is not defined in Section 1504 or in current SEC regulations. Nor can the term be defined by reference to EITI, since that initiative does not contemplate project-level reporting. And while the term "project" may be informally used by companies to describe a variety of different activities, depending on the context, there is no generic, agreed-upon definition in industry. Thus, defining what constitutes a project for purposes of Section 1504 reporting is a key area for Commission discretion; it is critical that principles of shareholder protection and materiality be considered in such a definition.

Fundamentally, the business of a resource extraction company is to find and extract resources. The existence of a particular resource, with its own unique physical and geologic characteristics, is the common factor that links a myriad of activities -- ranging from obtaining rights to explore, to the acquisition of seismic data, to the negotiation of agreements, to exploratory drilling, to development and production plans -- to a single common purpose.

Accordingly, we believe the most reasonable and workable way to define "project" for resource extraction issuers is by reference to a particular geologic resource. Specifically, API proposes the following:

> "**Project**" means technical and commercial activities carried out within a particular geologic basin or province to explore for, develop and produce oil, natural gas or minerals. These activities include, but are not limited to, acreage acquisition, exploration studies, seismic data acquisition, exploration drilling, reservoir engineering studies, facilities engineering design studies, commercial evaluation studies, development drilling, facilities construction, production operations, and abandonment. A project may consist of multiple phases or stages.

We believe this definition comprehensively captures the various separate activities involved in Upstream projects as commonly understood, and can be applied with reasonable certainty by both oil and gas companies and other kinds of extractive enterprises. Because this definition allows aggregation of payments under individual contracts to the extent those contracts appropriately relate to a single resource extraction objective, the proposed definition might also help reduce the potential harm to companies and their shareholders from the disclosure of commercially sensitive information, violation of local laws, or breach of contract. In short, we believe this definition allows the Commission to reconcile the legislative constraints of Section 1504 with the Commission's overarching mission to protect investors and to promote competition and market efficiency.

We take strong exception to the "project" definition proposed by the Publish What You Pay ("PWYP") coalition in its comment letter dated November 22, 2010 and the Calvert/SIF letter dated November 15. PWYP and Calvert/SIF propose defining the term "project" at a low level that would require separate disclosure with respect to each individual lease or concession agreement, even if those agreements relate to the extraction of a single resource.

First, the PWYP and Calvert/SIF definition contradicts the plain meaning of Section 1504. Congress could have expressly required resource extraction issuers to disclose each lease or agreement entered into with a government, but did not do so. The use of the word "project" by any common understanding of the term encompasses all activities related to a single common purpose, whether those activities include one or multiple separate leases or concession agreements.

Second, the PWYP and Calvert/SIF definition would result in disclosures that are far more granular than the definition proposed above, requiring detailed reporting for thousands of individual leases, licenses or concessions for many companies. In addition to raising practicality and cost/benefit issues for preparers, the large volume of immaterial disclosures will be a hindrance for most users. Such excessive detail also violates disclosure principles previously agreed to with the Commission that limit specific economic disclosures at the field level.

Finally, the proposed PWYP and Calvert/SIF definition would not advance the objective of government accountability -- which depends on disclosure of the aggregate revenues a government receives, not the specific commercial details of individual revenue streams -- but would ensure that disclosure under Section 1504 results in maximum harm to U.S. companies and their shareholders. As we have previously discussed in greater detail, such harm would include:

- Disclosure of commercially sensitive contract terms;
- Violation of foreign law;
- Breach of contracts with foreign governments;
- Inundating investors with large volumes of immaterial information;
- Placing SEC registrants at a competitive disadvantage vs. non-registrants; and
- Undermining transparency by leading governments to shift business to companies that are not subject to the reporting requirements.

For all the above reasons, API strongly urges the Commission to define the term "project" for purposes of Section 1504 disclosure by reference to the underlying resource in the manner we have proposed.

We appreciate the opportunity to provide this input to the Commission and plan to provide detailed comments on this and other aspects of the rulemaking, including responding to other aspects of the PWYP and Calvert/SIF proposals, after proposed rules are issued.

Sincerely,

Kyle Isakower
Vice President
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Patrick T. Mulva
Chairman
API Corporate Finance Committee

cc:	Mr. Zachary May	SEC
	Ms. Smeeta Ramarathnam	SEC
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