TOTAL FINA ELF

Le Directeur Financier

IASC
Sir David Tweedie
Chairman IASB
30 Cannon Street
LONDON EC4M 6XH
United Kingdom

16th September 2002

Dear Sir,

We appreciate the opportunity to comment the question raised by the IAS 2 on the proposed elimination of the allowed alternative of using the Last-in First-out method (LIFO).

TOTALFINAELF is an integrated Oil and Gas company that is highly concerned with the improvements of the quality of accounting standards and in particular with the LIFO issue because inventory valuation is a key subject in measuring the performance in the industry.

As a general matter, we concur with the objective of the IASB to eliminate alternative methods when they reduce comparability in financial statements and are willing to give our full support to the Board action in this respect. Our comments are given in this perspective, notwithstanding the company's particular concerns.

In respect of this particular proposal, we do not concur with the elimination of the LIFO method because we believe that there are no contradictions or incompatible alternatives in the current IAS text. Conceptually, FIFO and LIFO should not be considered as exclusive one against another. Rather, FIFO, LIFO, or Average cost methods are, in our view given a long practice of the subject, practical conventions that allow representation of the physical flow of products when it is not possible to track the actual cost of each individual product The underlying basic element, however, remains the actual cost of the particular product sold and the best way to achieve it is a practical question.

In the case of the Oil and Gas industry, inventory levels are generally driven by security considerations. Quantities in hand are the minimum required either by law or by the operating constraints of refineries. Inventories are therefore, by nature, long-term assets and not working capital. Because of highly volatile oil prices, actual cost charged to the profit and loss statement including inventory impact is always managed to be the closest to the market prices and may, for that purpose, include derivatives. Considering the nature of the risk management system in practice in the industry, we strongly believe that the best approach to approximate the actual flows of products and to give the truest view of the actual performance is the use of LIFO or of similar Replacement cost methods. In this particular context, the often raised criticism against LIFO based on the argument that the reversal in the profit and loss statement of old layers valued at low out-of-date costs is a source of distortion on the measure of performance, is not relevant because changes in security inventory is an infrequent event.

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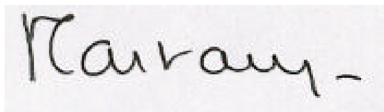
In addition, the argument that FIFO better represents the fair value does not really appear to be relevant because it applies only to the balance sheet and not to the profit and loss statement. When using LIFO, the information on the FIFO valuation can be generally given in the notes to the financial statements and therefore, the fair value information is still made available. Eliminating LIFO or forbidding Replacement cost method would therefore not improves the quality of financial information.

For the above reasons, it seems most improbable that the other accounting standards such as US GAAP will discontinue the use of LIFO. As an Oil and Gas major, we are extremely worried that the elimination of LIFO or of Replacement cost method would lead to a significant lack of comparability with the industry majors. In such case, communication on financial performance would have to be made based on management accounting information and would not be in accordance with published financial statements.

In order to achieve the desirable improvement of accounting standards through reduction of alternatives, we suggest that the elimination of LIFO or of Replacement cost method be prescribed only in those cases when there are no clear indications that the physical flows of products are either FIFO or LIFO oriented. On the contrary, when, based on industrial considerations, it is possible to determine the nature of the actual flows as it is obviously the case with LIFO in the Oil industry, the method used should be the one considered by the company to provide the best representation of those flows.

Yours Sincerely,



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