

REPORTS ON TRANSPARENCY IN THE EXTRACTIVE INDUSTRY

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The Government's policy in the extractive industry in the last 19 years

Three periods:

1. 2003 – 2016;
2. 2017-2019;
3. After 2020

Government policy in extractive industry, 2003 - 2016

What can be mentioned:

- Azerbaijan actively joins the International Initiative "Transparency in the Extractive Industry" as a pilot country in 2003;
- The representatives of the Government of Azerbaijan and CSO are included in the governing bodies of the Initiative during the mentioned period and actively participate in the preparation and implementation of the EITI Standard;
- A Memorandum of Cooperation is signed between the Government of Azerbaijan, oil companies, and the CSO Coalition;
- Azerbaijan is becoming a school for many other countries' governments and civil society organizations;
- In 2014, the activities of civil society organizations (including Coalition members) are restricted.

Cooperation Memorandum signing ceremony, 24.11.2004



Government policy in the extractive industry in 2017 - 2019

Document reflecting the policy of this period: Decree of the President of the Republic of Azerbaijan dated April 5, 2017 "On additional measures related to increasing transparency and accountability in the extractive industry".

With this Decree, Azerbaijan leaves the International Initiative. However, the Decree states that:
"Azerbaijan supports all international efforts on transparency and accountability in the extractive industry, regardless of whether it is a member of this or that international initiative, and is determined to continue the application of international standards."

However, there are some policy changes:

- A new and more authoritative Commission on Transparency in Extractive Industries is being established;
- The **Multi-stakeholder**, one of the most important requirements of the International Standard, is abolished.

However, Annual Reports continue to be prepared in accordance with the International Standard, and civil society organizations participate in the discussions of the drafts of those reports (with the representation of experts). During the discussion and approval of reports in the Commission, SCO representatives are given the opportunity to participate in a wider composition.

Government policy in extractive industries from 2020

The main regulatory legal documents reflecting the government's policy:

- Decree of the President of the Republic of Azerbaijan dated July 28, 2020 "On additional measures related to the implementation of transparency accountability in the extractive industry";
- Decree of the Cabinet of Ministers of the Republic of Azerbaijan dated August 10, 2020 on ensuring the implementation of Decree of the President of the Republic of Azerbaijan dated July 28, 2020 "On additional measures related to the implementation of transparency in the extractive industry";
- "SYSTEM OF STATISTICAL INDICATORS ON TRANSPARENCY IN THE EXTRACTIVE INDUSTRY" approved by the Order No. 01/14s dated February 25, 2021 of the AR State Statistics Committee.

Government policy in extractive industries from 2020

Decree of the President of the Republic of Azerbaijan dated July 28, 2020 "On additional measures regarding the implementation of transparency accountability in the extractive industry".

There is such an important note in the decree: *"Azerbaijan as a consistent supporter of international standards in the field of EITI ..."*.

By decree:

- The State Statistics Committee (SSC) is entrusted with the provision of accountability on the transparency;
- The SSC is tasked to: 1) coordinate the activities of state bodies (institutions); 2) To ensure the continuous collection of reports on transparency and the public disclosure reports summarized on the basis of the collected reports of companies.
- In order to submit reports, tasks are given to relevant state institutions, and recommendations are made to foreign companies.
- President's Decree No. 1315 dated April 5, 2017 is revoked.

Government policy in extractive industries from 2020

Decree of the Cabinet of Ministers (CM) of the Republic of Azerbaijan dated August 10, 2020 on ensuring the implementation of Decree No. 1114 of the President of the Republic of Azerbaijan dated July 28, 2020 "On additional measures related to the implementation of transparency in the extractive industry".

There are no new points in the Decree related to the transparency policy in Extractive Industry. The Decree of CM is aimed only at ensuring the implementation of the Decree of the President of the Republic of Azerbaijan.

The order instructs the relevant institutions to:

- Within 2 months, they should adapt the previous normative legal acts to the Decree of the President of the Republic of Azerbaijan dated 28.07.2020;
- Carry out other measures related to the Decree of the President of the Republic of Azerbaijan in agreement with the Cabinet of Ministers.

Government policy in extractive industries from 2020

"SYSTEM OF STATISTICAL INDICATORS ON TRANSPARENCY IN THE EXTRACT INDUSTRY" approved by Order No. 01/14s dated February 25, 2021 of the State Statistics Committee. Groups of indicators:

- 1) Number of manufacturing enterprises
- 2) Production indicators
- 3) Export indicators
- 4) Basic infrastructure indicators
- 5) Allocations and payments to the state related to production
- 6) Payments made by foreign and local oil companies (joint ventures) operating in the Republic of Azerbaijan to the State Oil Company for the implementation of state regulatory functions within the framework of oil and gas agreements, the volume of supplied crude oil and natural gas
- 7) Expenses of enterprises
- 8) Assets of enterprises
- 9) Investment
- 10) Employment and wages
- 11) Energy balance of the country
- 12) Commodity balance on crude oil (including gas condensate).
- 13) Commodity balance on natural gas
- 14) Some macroeconomic indicators for the country

There are a total of 218 indicators in 14 groups.

Reports prepared by the State Statistics Committee and presented to the public



The 2022 Report prepared by the State Statistics Committee

The report was prepared according to the "SYSTEM OF STATISTICAL INDICATORS ON TRANSPARENCY IN THE EXTRACT INDUSTRY".

The report presents indicators for 2019, 2020 and 2021 and by company.

The report was prepared on the basis of information from companies participating in 17 Production Sharing Agreements (16 of which are oil and gas production agreements). 23 foreign companies and SOCAR's partner or subsidiary companies (exact status cannot be determined).

Company information was collected electronically for the first time. The web page of the DSK

(<https://www.azstat.org/loginControl/faces/main.xhtml;jsessionid=34f9bda2e38e3209812db07d19f2?cid=1>) provides relevant opportunities. Recommendations for data preparation for companies on filling in the indicators reflected in the "System of statistical indicators on transparency in the extractive industry" are also available on the website: <https://www.stat.gov.az/menu/4/e-reports/az/04 /004.php>

EITI Requirements

- **Requirement 1.** Oversight by the multi-stakeholder group;
- **Requirement №2.** Legal and institutional framework, including allocation of contracts and licenses;
- **Requirement №3.** Exploration and production;
- **Requirement №4.** Revenue collection;
- **Requirement №5.** Revenue allocations;
- **Requirement №6.** Social and economic spending;
- **Requirement №7.** Outcomes and impact.

Requirement 1. Oversight by the multi-stakeholder group

A Multi-Stakeholder Group (MSG) consisting of representatives of Government, CSO and companies should be established according to this Requirement. The MSG should participate and control the process of preparing the Report.

This requirement is not provided by the normative legal documents in force. As a result, **the Report does not meet this requirement of the International Standard.**

Requirement №2. Legal and institutional framework, including allocation of contracts and licenses

Reports in compliance with this requirement must reflect the current normative legal system in the Extractive Industry, the rules for signing contracts and the tax regime. In addition, this requirement should include references to the Government's register of licences. Relevant information on the disclosure status of contracts and the disclosure of beneficial owners should be provided in the Report.

Thus, the Report does not meet the 2nd Requirement of the International EITI Standard. However, 13 of the contracts signed by Azerbaijan are disclosed on the website of the SSC.

Requirement №3. Exploration and production

The Report in accordance with this requirement must contain information on the exploration, production and export of minerals.

Information on production and export is reflected, but no information is given on exploration work.

Thus, the report meets Requirement 3 of the International EITI Standard on disclosure of production and export, but does not meet Requirement 3 on exploration.

It should also be noted that disclosure of intelligence information is not provided for in the "SYSTEM OF STATISTICAL INDICATORS ON TRANSPARENCY IN EXTRACT INDUSTRY".

Requirement №4. Revenue collection

The following information must be disclosed in the Report according to this Requirement:

1. Comprehensive disclosure of taxes and revenues;
2. Sale of the state's share of production or other revenues collected in kind;
3. Infrastructure provisions and barter arrangements;
4. Transportation revenues;
5. Transactions related to state-owned enterprises;
6. Subnational payments;
7. Level of disaggregation;
8. Data timeliness;
9. Data quality and assurance.

Requirement №4. Revenue collection

The following can be noted regarding the report's compliance with Requirement 4 of the International Standard:

- 1) information on taxes and income is disclosed by most of the companies that are parties to the Agreements. Information from some companies is not disclosed;
- 2) information on the export of oil, gas and other minerals produced and naturally falling on the state's share is disclosed by most of the companies that are participants of the Agreements. Information from some companies is not disclosed;
- 3) Information on the construction of infrastructure facilities and barter operations is not disclosed. However, the number of oil and gas wells and the length of export pipelines are indicated;
- 4) income from transportation is not disclosed;

Requirement №4. Revenue collection

- 5) a special section on transactions with the participation of state enterprises is not available in the Report;
- 6) payments at the subnational level are not envisaged in Azerbaijan;
- 7) the level of detail of disclosed information is satisfactory in the Report;
- 8) timely submission of data is satisfactory;
- 9) There are no notes in the Report on the quality of the data.

Thus, the Report partially meets Requirement 4 of the International Standard.

Requirement №5. Revenue allocations

The following must be disclosed in the Report in accordance with this Requirement:

- 1) Distribution of extractive industry revenues;
- 2) Subnational transfers;
- 3) Revenue management and expenditures.

These data are not reflected in the Report.

Requirement №6. Social and economic spending

The following must be disclosed in the Report in accordance with this Requirement:

- 1) Social and environmental expenditures by extractive companies;
- 2) Quasi-fiscal expenditures;
- 3) The contribution of the extractive sector to the economy;
- 4) Environmental impact of extractive activities.

These data are not reflected in the Report.

Requirement №7. Outcomes and impact

The following must be disclosed in the Report in accordance with this Requirement:

- 1) Public debate;
- 2) Data accessibility and open data;
- 3) Recommendations from EITI implementation;
- 4) Review the outcomes and impact of EITI implementation.

These data are not reflected in the Report.

What does the comparison of the current Reports with the reports before 2017 show?

Design of Report does not conform to the International Standard:

- Many important information required by the standard are not provided;
- CSO participation required by the standard is not provided;
- Lack of information about whether the information obtained from the companies has been audited;
- Absence of any analytical considerations;
- Data on many indicators are not disclosed by a number of companies;
- Submitting the report as a PDF file on the SSC website;
- Lack of a short version of the report readable for ordinary citizens;
- Other differences.

Compliance of the reports with the country's normative and legal acts

The reports are in accordance with the existing regulatory and legal acts. But there is a questionable point.

The Decree of the President of the Republic of Azerbaijan dated July 28, 2020 "On additional measures related to the implementation of accountability for transparency in the extractive industry" contains the following statement: *"As a consistent supporter of international standards in the extractive industry, the Republic of Azerbaijan must ensure the implementation of these changes in our country and benefit from their positive results. considers it necessary"*.

Thus, the non-compliance of the Reports with the International Standard constitutes a contradiction with this Decree.

Recommendations on complying with the requirements of the EITI International Standard on Reports.

Restoration of the country's membership in the EITI. If it does not seem appropriate for this purpose, to adapt the preparation of Reports according to the 2017 Presidential Decree. That is, to re-enact that Decree.

Recommendations on increasing transparency in the Extractive Industry of Azerbaijan

- 1) Ensuring completeness of information from all companies in reports;
- 2) Bringing the "SYSTEM OF STATISTICAL INDICATORS ON TRANSPARENCY IN THE EXTRACT INDUSTRY" approved by the Order No. 01/14s dated February 25, 2021, to the International Standard;
- 3) Aggregation of Indicators by Agreements. This can indicate the contribution of each Agreement to the country's economy;
- 4) Expanding public discussion of reports.

Thank you for your attention!

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