



EITI: participation of the Coalition and its some suggestions on improving

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Content of the presentation:

- About the Coalition;
- Involvement of the Coalition in the EITI process (current commitments and their expansion);
- Activity of the Coalition (past, current and future);
- Oil revenues: does EITI answer all questions?
- Some suggestions



Coalition to Improve Transparency in Extractive Industry

- Establishment date of the Coalition:
13.05.04
- Members: civil society organizations and private individuals
- Number of members:
 - At the time of establishment – 32;
 - At present – 107 (public associations - 94; private individuals - 13);



Coalition to Improve Transparency in Extractive Industry

Objectives: :

- Public monitoring;
- Awareness of citizens;
- Development of civil society;
- Contribution of civil society to EITI



Coalition to Improve Transparency in Extractive Industry

www.eiti-az.org



Participation of the Coalition in EITI:

- Participation in preparations for EITI introduction in Azerbaijan (completed in 2004);
- Participation in improving the Azerbaijan version of EITI;
- Participation in the selection of an auditor;
- Participation in public debate of auditor's opinion;
- Preparation the feedback on EITI reports

Main activity directions of the Coalition



- Activity pertaining to the Memorandum (dated 24.11.04);
- Advocacy;
- Monitoring;
- Awareness;
- Analysis;
- Capacity building of the Coalition;
- International cooperation;



Concerns of the Coalition on EITI

1. Although EITI covers most revenues, some types of revenue are outside its scope
2. EITI can answer only some of the questions of the public with regard to oil revenues



Types of revenue:

Reflection of revenues
in EITI reports: :

- | | |
|---|---|
| ➤ Mənfəət nefti | + |
| ➤ Səmt qazı | + |
| ➤ Bonuslar | + |
| ➤ Akrhesabı ödənişlər | + |
| ➤ Podratçının ödədiyi vergilər | + |
| ➤ Subpodratçıların ödədikləri vergilər | - |
| ➤ İcarə haqqı | - |
| ➤ Sosial vergilər | - |
| ➤ İşçilərin gəlir vergisi | - |
| ➤ Tranzit Tarifləri | + |

One more remark on EITI reporting



The main question of the public, i.e. how much in Manats (or in USD) did Azerbaijan earn in the accounting period, remains unanswered.

The next slide shortly describes the 2005 EITI report. In order to find out why the aforesaid question went unanswered, let's have a look at this table.

Report of the Government about aggregated receipts from the extractive industries, 2005



| | VALUE | | Volume | |
|---|-------------|--------------|-------------------|---|
| | mln. USD | bln. AZM | Oil mln.barrel | Gas (natural, associated)m in kub metr |
| 1 | 2 | 3 | 4 | 5 |
| 1. Receipts by Host Government from the foreign companies | | | | |
| - State share in profit oil | | | 14,3 | |
| - Gas (natural, associated) | | | | 1919709,0 |
| - Signing bonuses and other bonuses | 1,0 | | | |
| - Acreage fees | 8,8 | | | |
| - Transit fees | 16,5 | | | |
| - Compensation in lieu of non-performance of contractual obligations | | 229,6 | | |
| 2. Receipts by Host Government from local companies | | | | |
| - State share in profit oil | | | 0 | |
| - Gas (natural, associated) | | | | 0 |
| - Royalties | | 249,8 | | |
| - Profit tax | | 46,9 | | |
| - Other tax (excluding employee income tax, social tax and withholding tax) | | 400,3 | | |
| Total: | 26,3 | 926,6 | 14,3 | 1919709,0 |



What can we do?

As we can see, the report showed the profit oil only in barrels (14.3). The reason is that in tables applied in the EITI, contractor companies can indicate the profit oil that is due to the state only in barrels.

Along with that, the money that is due to the state from profit oil last year is given in SOFAR reports in manats and dollars (the next slide). That's to say it is a known sum of money.

Thus, in order to answer the aforesaid question, the EITI version used in Azerbaijan should undergo certain changes. This can be solved through additional explanations from SOFAR.



Proceeds from sales of profit oil*

In 2005, proceeds from sale of the Republic of Azerbaijan's share of profit oil under the oil contracts entered into with foreign oil companies constituted the principal source of inflow to the Oil Fund and were a major portion of the Fund's total revenues. A total of AZM2.7 trillion (AZN542.6 million) or USD579.9 million of revenues were gained during the reporting year from sale of the State Oil Fund's share of profit oil. These revenues constituted 82.2% of the Oil Fund's total revenues in the reporting year.

* Annual report of SOFAR, 2005, page 9



Questions of interest for the public:

1. how much revenues have been earned (in a certain period of time)?
2. what are the types of revenues and how much has been earned on them?
3. does the volume of revenues correspond to expectations or should they be more?
4. what is the share of companies in Azerbaijan's revenues?
5. where are the revenues being sent?
6. where, what for and in what volumes are revenues being spent?
7. how effective is the spending of revenues?
8. are revenues being embezzled at least partly?
9. do revenues compensate the damage being caused to the environment?
10. what are the revenues under individual contracts?

The EITI can answer only the first question and partly the second question.



Questions of interest for experts:

There are many!



How can the information not provided by EITI be obtained?

- By improving EITI reporting
- By surveys among state bodies and companies (The new law on Information Freedom permit it)



Is it permitted to improve EITI - Azerbaijan?

The fifth principle of the EITI allows this:

We underline the importance of transparency by governments and companies in the extractive industries and the need to enhance public financial management and accountability

However, on condition that the sixth principle is observed:

We recognise that achievement of greater transparency must be set in the context of respect for contracts and laws



Other EITI principles that can encourage us:

11. We believe that payments' disclosure in a given country should involve all extractive industry companies operating in that country
12. In seeking solutions, we believe that all stakeholders have important and relevant contributions to make – including governments and their agencies, extractive industry companies, service companies, multilateral organisations, financial organisations, investors and non-governmental organisations

Some suggestions over oil revenues:



- A new law on the management of oil revenues must be adopted;
- A representative of public associations must be present on the Watchdog Council of the Oil Fund;
- EITI reports must be expanded;
- A system of accountancy on spending the oil revenues must be created;



Conclusion

Azerbaijan has made great progress on the EITI. However, there is an opportunity and a need to move forward. The coalition hopes that steps to develop the EITI will be taken both in Azerbaijan and in the world.



THANK YOU VERY MUCH