

Introduction to the Extractive Industries Transparency Initiative and principles of good governance in the oil and gas sector

Report from a workshop held on 28 September 2011, President Hotel, Ashgabat, Turkmenistan

The Extractive Industries Transparency Initiative (EITI) is a voluntary global initiative to promote revenue transparency in the oil, gas and mining sectors. EITI requires countries to declare the revenues they receive from companies, and requires companies to declare what they pay. On 28th September 2011, the British Embassy and the Turkmenistan Ministry of Oil and Gas convened a meeting to discuss EITI and broader issues of transparency and good governance in the oil and gas sector. The meeting was co-organised by the International Institute for Environment and Development (London), with support from the UK Foreign and Commonwealth Office. This was the first meeting of its kind to take place in Ashgabat.

companies, including Turkmenneft, Turkmengas and Turkmengeologia. A number of foreign oil companies and service companies are already involved in partnerships with Turkmenistan, including UAE, Malaysian, South Korean and Chinese companies. Turkmenistan has two processing facilities and a third in construction. A Turkmenistan Afghanistan Pakistan India (TAPI) gas pipeline is planned, in addition to the new pipeline to China. The government is interested in attracting more foreign investment and building more international partnerships. Companies from the US, Russia, Europe, China, Japan and Korea are interested in investing. New expansion of the industry is taking place offshore. Key challenges are in accessing new technology and ensuring economic efficiency of operations.

Welcome and introductions

Participants were welcomed by Ramazan Udumov, of the Ministry of oil and gas (deputy head of the analyses and prospects department); and Keith Allan, the UK Ambassador to Turkmenistan. The UK ambassador emphasised the value of collaboration between the UK and Turkmenistan in the oil and gas sector, and the importance of adopting international standards of good practice such as EITI, especially when seeking to attract new investment into the country.

Mr Udumov provided an overview of recent developments in Turkmenistan's oil and gas sector. The Government of Turkmenistan runs the oil and gas sector, with a number of state

Presentations on EITI

Two presentations on EITI provided insights into the views of international financial institutions. These were Neil McCain of the European Bank for Reconstruction and Development (EBRD) and Gohar Gyulumyan of the World Bank. Dr Ingilab Ahmadov of the Public Finance Monitoring Centre in Baku, provided an in-depth perspective from Azerbaijan – the first EITI-compliant country.

The World Bank and EBRD try to advance good corporate governance, financial transparency and sound business practice in their investments. They seek to combat corruption and ensure that the benefits of development are shared by the whole population. They have their own standards of



transparency and disclosure and they also actively participate in the work of EITI.

EITI increases a country's investment prospects. Investors and development banks frequently require that a country has signed up to EITI before investing. For example, the EBRD's Turkmenistan country strategy requires the Turkmen government to work towards EITI compliance before the EBRD can invest in extractive industries at any level. The country is not required to be compliant but they need to be making progress towards compliance. The EBRD would like to see Turkmenistan deepen its current reforms and innovations, such as the Stabilisation Fund, which is more transparent than other similar funds. There were good examples of where Turkmenistan has addressed a big issue very quickly and effectively.

Some international entities support the preparatory activities required before signing up to EITI. One such fund is the World Bank Multi-Donor Trust Fund. Through this facility the World Bank provides technical and financial assistance to countries implementing or preparing to implement EITI. The fund can support the sharing of international good practice experience; it can make advisers and consultants available to assist governments; and it can provide grant assistance to support governments with EITI implementation.

Companies welcome EITI because by getting involved in this global initiative they can demonstrate a high standard of financial reporting before host governments and shareholders. This may also enhance their reputation in the international financial community. Companies also appreciate it when governments adopt global frameworks for responsible business practice, as this means that all companies working in the country are required to meet the same standards (a 'level playing field'). Overall, EITI is seen as a positive initiative, as it provides a framework for governments and companies to work together to promote sound financial management and good business practice, to reduce corruption and increase the benefits from oil, gas and mining activities.

EITI also creates a platform for multi-stakeholder engagement, and this platform has been used in some countries to address issues of transparency and good governance beyond the publication of extractive industry revenue payments. The participation of three key groups – government, industry and civil society – is seen as essential to the effective working of EITI. The role of civil society was emphasised; involvement in EITI can strengthen civil society capacities.

The Public Finance Monitoring Centre (PFMC) is a key member of Azerbaijan's EITI NGO Coalition. In 2004 after the Azerbaijan Government signed up to EITI, PFMC together with other related NGOs started to create Azerbaijan's EITI NGO Coalition. Today this coalition has more than 150 civil society organisations. It is active in promoting EITI implementation and learning in the broader Central Asian and Caucasus region, and the Global Publish What You Pay Campaign. In the early stages of EITI development in 2005 PFMC organized a training course for leaders of civil society organisations, to build knowledge and technical skills on production sharing agreements and EITI itself. This was one of the first initiatives to be supported by the World Bank Multi-Donor Trust Fund.

Dr Ahmadov provided a detailed look at the process of reporting and validation for EITI. A key issue is whether data are published in a disaggregated or aggregated form (i.e. whether company payments are reported individually or as one overall sum). Many companies prefer aggregated data, for reasons of commercial confidentiality and competitiveness, and due to the varying nature of contracts signed in different places at different times. However, researchers and civil society organisations prefer disaggregated data. Governments are sometimes limited by the nature of contracts with companies as to the amount of detail they are able to disclose. EITI's minimum requirement does not oblige companies to provide disaggregated reporting (i.e. company by company, or project by project). Nonetheless, individual reporting has become a good practise, and many countries,

including Mongolia, Nigeria and Norway, practice disaggregated reporting. Disaggregated reporting allows local and international observers to ascertain individual companies' contribution to the treasury of resource-rich countries.

Signing up to EITI is a decision made by governments. When a government signs up, all companies operating in that country are obliged to make their EITI reports, even if their home country has not signed up to EITI. Of Turkmenistan's neighbouring countries, Azerbaijan, Kazakhstan, Mongolia and Kyrgyz Republic have signed up to EITI. China has expressed some interest.

Presentations on sustainable development and good governance

Dr Saule Ospanova and Dr Emma Wilson, both representing the International Institute for Environment and Development, gave presentations on corporate social responsibility and promoting sustainable development principles in the oil and gas sector. Both presentations highlighted the fact that corporate responsibility means more than philanthropy and a basic compliance with national legislation. It requires effective management of environmental and social risk throughout operations, and requires building and maintaining good relations with other stakeholders.

Responsible business practice is seen as a shared responsibility between the government, major oil and gas companies, service companies and other contractors. Transparency in environmental decision-making and social benefit distribution is seen as essential to good business practice. Sustainability reporting, public consultation and public grievance mechanisms are all important tools to promote greater transparency and to build public trust.

EITI has stimulated public discussion of transparency issues beyond the EITI mandate, e.g. relating to investment contracts, revenue spending and social investment spending. It has encouraged greater public monitoring of the effectiveness of this spending, and consideration

of whether and how investment contracts provide sustainable and fair benefits to the host country and communities.

Dr Ospanova (based in Kazakhstan) included specific experience from Kazakhstan, relating to 'local content' targets and the contracts that frame these relationships; the opportunities available for local businesses and the need for capacity building. She also drew attention to a key challenge in the oil and gas sector: that of utilising locally produced and associated gas – a significant potential resource for local power generation or petrochemical production. Gas flare reduction is also key to reducing greenhouse gas emissions and mitigating climate change.

Conclusions and next steps

Many participants, including the Ministry of oil and gas representatives, wanted to learn more about the EITI and its potential for Turkmenistan. Some expressed their desire for Turkmenistan to sign up to EITI. While several participants had not come across EITI before, some had already considered and actively encouraged discussion of the initiative. This seminar was seen as a welcome first step, but participants acknowledged the need to work hard to keep the momentum going.

In the coffee breaks and in the seminar room, there were lively discussions about next steps. The Ministry of Oil and Gas was keen to follow up from the seminar, and identified the need to engage other Ministries in dialogue around EITI prospects.

In a meeting that took place shortly after this seminar, the British Ambassador raised EITI at Deputy Prime Ministerial level (Oil and Gas, Economy and Finance, and Foreign Ministry), thanking them for their cooperation with the event. The Deputy Prime Ministers expressed their thanks for the help in organising the event, and felt that this was a good example of relevant training and assistance in this area.

The need for greater donor co-ordination was highlighted at the workshop and representatives of the international community discussed how to address this matter at the workshop.

On 3-4 November 2011, Ashgabat hosted an OSCE chairmanship conference on "Integrating Global Energy Markets – Providing Energy Security". The meeting brought together experts and participants from OSCE participating states and other countries, and discussed energy trade, transit and diversification of energy resources in the OSCE region and beyond. The aim was to promote regional and multilateral energy co-operation dialogue and provide recommendations on the development of legal frameworks that meets the needs of energy producing, transit and consuming countries. The UK Caspian Energy Adviser, Angus Miller participated in the conference and referred to the seminar on 28 September and benefits of EITI. At a separate meeting, the Turkmen Minister of Oil and Gas thanked Miller for the UK's assistance with the EITI seminar.

Information from this EITI workshop has been shared with the head of the EITI Secretariat, Jonas Moberg. He attended and spoke at the OSCE energy conference and met with key people, including the UK and US Ambassadors. Moberg welcomed the initiative to hold the EITI seminar on 28 September and agreed that partners should continue to engage, support and encourage Turkmenistan towards the principles of EITI.

There are other opportunities for follow up elsewhere in the Caspian Region. For example, the recently established Eurasia Extractive Industries Knowledge HUB, based at Baku University, provides very important knowledge and skills relating to the whole extractive industries value chain. This includes: oil & gas contracts, EITI, revenue management, stabilisation funds, and sustainability in resource-rich economies throughout the Eurasian

region. In May 2010 the Eurasia HUB served 22 participants from CSOs, companies, and the governments of Albania, Bulgaria, Ukraine, Georgia, Tajikistan, Afghanistan and Turkey on EITI knowledge. The Eurasia Hub is keen to continue this work and proposes to invite participants from Turkmenistan to the next training session in early 2012.

The government of Turkmenistan has a real interest in EITI and this is a good platform to enable integration into the European wave of gas supply. The UK Embassy is willing to work with the government, encourage foreign extractive industries companies in the country and facilitate CSO involvement in this initiative. In the initial stages it makes sense to organise a relevant meeting of oil and gas ministry officials with the EITI Secretariat and Board members. Another opportunity would be to meeting with neighbour countries' governments, such as Azerbaijan and the Kyrgyz Republic to share EITI experience in the region.

In parallel, training courses on EITI would be a good opportunity to strengthen the capacity of stakeholders, including government and company representatives and CSO leaders.

Further meetings in this series of workshops funded by the FCO in the Caspian Region will take place in Aktau, Kazakhstan (February 2012) and Baku, Azerbaijan (April 2012). Participants from Turkmenistan will be identified invited to these meetings. The specific aim of these meetings is to explore activities and opportunities 'beyond EITI'. In Azerbaijan's case this relates to what civil society organisations might do following Azerbaijan's compliance, in areas such as revenue spending. In Kazakhstan it relates to exploring further areas including environmental reporting and social investment reporting.

This workshop was the first in a series of four stakeholder dialogues on transparency and good governance in the oil and gas sector in Turkmenistan (Ashgabat), Kazakhstan (Astana and Aktau) and Azerbaijan (Baku). The initiative is funded by the UK Foreign and Commonwealth Office and co-ordinated by the International Institute for Environment and Development (IIED).

For more information, please see: www.iied.org/sustainable-markets/key-issues/energy/caspian-energy-initiative
Contact: Emma Wilson (emma.wilson@iied.org)